ECONOMICS
A SOCIAL SCIENCE

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BY

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Dedicated

with affectionate regard

To my students past and present

Whom for over thirty years

It has been my privilege to guide

In the study of Economics

As a Science human and fruit-bearing

For the greater wellbeing of the people of India.

FOREWORD

This book is not a treatise; nor is it a mere sketch. It bears the stamp of its origin,—a series of six lectures which the University of Madras invited the author to deliver, under the Sir William Meyer Endowment, on a subject in economics. The title of the book sums up the main idea which runs through it all, while the lectures, which in the main have been kept in their original form, present, in a broad survey and without any pretence at being exhaustive, some of the numerous problems which a treatise on economics as a social science would be expected to cover.

Rather than exhaustive, which it is not, this book aims at being suggestive. The concept of social economics, simple and obvious as at first it may seem to be, has too long been kept at a discount in the world of economic thought. The tendency to limit the study of economics to its theoretical or positive aspect has led to relegating its social character into the background. Even to-day this social aspect is still regarded by some economists as lying outside the economic field. An excessive solicitude to keep the various sciences, cognate sciences not excepted, in water-tight compartments, has worked in the same direction. But there are tangible and hopeful signs that a change of mental attitude has already set in among economists, tending to re-establish the contacts between abstract theory and the concrete world, thereby restoring to its proper place the social character of the science. It is this tendency which the present book endeavours to bring out and in its modest way to support.

The controversial nature of the subject has naturally led to the use of frequent and, at times, lengthy quotations from the recognized authorities. This is not a matter for regret. It has seemed best to allow these authorities to express their respective views in their own words; while at the same time care has been taken to explain the principles by which these views can be judged and appreciated. I claim no gift of inerrancy. My task throughout has been to expose the different views and to suggest an explanation, leaving it to the expert reader ultimately to draw his own conclusions. I shall be satisfied if only I have induced him to agree that the general question is well worth considering,—that economics rests fundamentally on the social character of man and that it is from this social outlook that economics should draw its main inspiration as a practical fruit-bearing science.

I gladly take this opportunity to offer my thanks to the Syndicate of the University of Madras for giving me the occasion to expose, in however imperfect a manner, what I consider to be the noblest, most useful and inspiring aspect of Economics.

Trichinopoly,
June 1940.

THE AUTHOR.

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PRELIMINARY SURVEY

IN his challenging book on *The Nature and Significance of Economic Science* which caused some stir in the economic world, Prof. Lionel Robbins stated quite frankly, speaking of economists: "We are all talking about the same things, but we have not yet agreed what it is we are talking about." Readers of the book outside the economic fold might possibly have surmised this statement to express the flippant opinion of some irresponsible writer, hardly the deliberate view of an expert economist. And though students of economics may not have been so easily scandalized, the very fact that an expert economist could give public expression to such a view was bound to lead to some searching of economic consciences.

It may not be out of place, at the outset, to remark that Economics is a relatively young science, (Alfred Marshall in his *Principles* says it "is still almost in its infancy"), and that it displays some of the characteristics of youth,—driving power not altogether free from exuberance, fearlessness in the face of a vastly growing subject which reveals ever new and more complex problems to solve, and a vigorous optimism

in its own powers to solve these problems and to overcome difficulties. There is moreover some truth in the statement quoted from Mill by Prof. Robbins, that the definition of a science has almost invariably, not preceded, but followed the creation of the science, although it would probably be hard to prove that until the definition was finally determined, the scientists did not know what it was they were talking about. It can, however, be assumed that in the case of economics, the exuberance of youth in the earlier years of the science would hardly put up with the more dignified and leisurely occupation of sitting down to the task of evolving an adequate academic definition of the subject matter.

Another characteristic, due in part to that youthful inexperience, but probably much more to the increasing complexity of the economic field, is the fact that it is only gradually that the precise object of economics came to be evolved. This is even probably too bold a phrase as it might imply either that the object of economics is now definitely settled or that economic studies can now be said to have all one and the same object. Neither assertion would likely be accepted as strictly correct. Even to this day expert opinion is divided as to what exactly is the object of Economics. The multiplicity and complexity of economic problems make it difficult, some say impossible, to speak of *the* scope and object of Economics in the singular. It is not hereby implied that economists work at cross-purposes; problems present themselves under different aspects, and the apparent disagreement comes largely from the different emphasis which each school of thought places on its particular point of view.

Science of wealth

It is well known that the early economists, influenced by their surroundings which culminated in the Industrial Revolution, were led to regard Economics as primarily the science of wealth. The first reason adduced by Prof. Marshall to explain the slow development of economic science is precisely that it had so far been mostly regarded as a science of wealth, the bearing of economics on the higher wellbeing of man having been overlooked. This is also borne out by the title of the work which founded the science of economics in Great Britain,—*the Wealth of Nations* of A. Smith. The inexhaustible possibilities of industrial production and of trade relations unhampered by obstructive regulations, whether intra-national or international, led to the view that the organisation of wealth production and exchange in an atmosphere of free competition was an adequate object for the new science. Its 'distribution' was broadly expected to take care of itself under the harmonious influence of so-called natural economic laws and economic harmonies; and as for 'consumption' it was regarded as unfit for scientific treatment and best left to the discerning eye of the house-wife. Thus the science of economics tended to shape into a material, if not materialistic, science, more akin to the physical than to the social sciences. Though Adam Smith had indicated the difference between value-in-use and value-in-exchange, meaning by the former the utility of an object from the objective, philosophical point of view, he mainly concentrated his attention on exchange value, with the result that value-in-use was dropped out of account by his successors and was curtly dismissed by Mill with the remark: "Political Economy

has nothing to do with the comparative estimation of different uses in the judgment of a philosopher or of a moralist."[1]

It was therefore a special merit of Jevons and the Austrian School to have revived interest in the problems indicated by A. Smith's value-in-use, even though their contribution was not an unmixed blessing owing to their connections with the questionable tenets of Hedonism and of Utilitarianism. But though some modern economists refer to their findings as "the old-fashioned version of utility," it is but fair to acknowledge their contribution in bringing back Economics to the right path by stressing the difference between value and price, recognizing the importance of 'consumption' and bringing us back to the truth, clearly stated later by Prof. Hadley and others with him, that value is essentially an ethical term.[2] This last statement may perhaps seem premature at this stage and will require further elucidation, but it remains true that the School did much to restore to Economics its human aspect.

That the road was not yet clear, however, is apparent from the difficulty in which Sidgwick, Marshall's predecessor in the Cambridge Chair of Economics, evidently found himself when he attempted to define the place of Political Economy among the sciences. "Originally", he says, "it was conceived as an art and is formally so defined by Adam Smith, though the substance of his doctrine inevitably rendered his exposition mainly that of a science. Not entirely, however," he adds, "since the doctrine of

[1] Principles of Political Economy, Bk. III Ch. I.

[2] Economics, P. 92.

laissez faire, characteristic of Adam Smith and his school, belongs to art; and, in the department of production, the line between science and art is difficult to draw." As against those who would pursue his statement to its logical conclusion and argued that the *practical* branch of Political Economy should be absorbed in the general Art of Government, Sidgwick could only reply: "Confusion will more easily be avoided if we continue to recognize an Art of Political Economy, at the same time carefully distinguishing it from the Science; moreover," he proceeded, "the Science of Political Economy is itself only a partially distinct branch of the general Science of Society."

To be thus 'carefully' cut away from the Art of Political Economy, and itself declared to be only a branch, distinct it is true, yet only partially so, of a general Science of Society which had still largely to be created, was in all truth a modest enough place to offer to Economics in the scientific gallery.

Science of man

With the appearance of Prof. Marshall's *Principles of Economics* we enter into more spacious times. The book created something of a quiet revolution in economic outlook as could be gathered from its opening sentence:

"Political Economy or Economics is a study of *mankind* in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being."

Man, the concrete real being, not the *œconomicus homo*, was to come into his own as the prime object of economic study, man and his activities, individual and social. Economics was not to be mistaken as mere chrematistics or the art of making money, for Marshall underlined his own definition by adding: "The dominant aim of Economics in the present generation is to contribute to a solution of social problems," observing with some optimism: "a later generation may have more abundant leisure than we for researches that throw light on obscure points in abstract speculation, or in the history of past times, but do not afford immediate aid in present difficulties."[1] It is to be feared that those of our present generation who realize how slow the pace towards 'a solution of social problems' has been, may draw the conclusion, not unmixed with a touch of sad irony, that the promised 'later generation with more abundant leisure' is not yet in sight, and that we are not likely to get a glimpse of it, seeing that the social problems press on us for solution to-day even more urgently than they did on Marshall's generation.

Whatever that may be, however, Marshall had opened the way to social economics and that he was keenly sincere about it he reveals himself in his preface to *Industry and Trade.*

"Nearly half a century has passed," he wrote in 1919, "since I set myself to obtain some insight into industrial problems by obtaining leave to visit one or more representative works in each chief industry..... I sought also to study the relations between technique and the conditions of employment for men and for women.

Principles of Economics, P. 42.

"In pursuit of the latter aim I made it a practice to ask what pay was being earned by each class of operatives whom I passed. Afterwards I asked to be allowed to guess in every case. If my guess was right within a shilling or two a week, I passed on. If not, I asked for explanation; and I almost always found that the reason lay in a cause, sometimes technical, sometimes relating to special conditions of the workers in question, which I did not know. The result was a conviction that inequalities of pay were less arbitrary than was often asserted, and were more directly under the influence of broad "natural" causes.

"But I believed that the causes of these causes were not wholly beyond human control; and that they might probably be so modified as to bring about a nearer approach to equality of conditions, and a better use of the products of human effort for the benefit of humanity. I developed a tendency to socialism; which was fortified later on by Mill's essays in the *Fortnightly Review* in 1879. Thus for more than a decade, I remained under the conviction that the suggestions which are associated with the word 'socialism', were the most important subject of study, if not in the world, yet at all events for me. But the writings of socialists generally repelled me, almost as much as they attracted me; because they seemed far out of touch with realities: and, partly for that reason, I decided to say little on the matter, till I had thought much longer."

The result of that long thoughtful silence was not particularly stimulating; it rather created a sense of disappointment, if not of disillusionment. "No socialist scheme, yet advanced," he then wrote, "seems to

make adequate provision for the maintenance of high enterprise, and individual strength of character; nor to promise a sufficiently rapid increase in the business plant and other material implements of production, to enable the real incomes of the manual labour classes to continue to increase as fast as they have done in the recent past, even if the total income of the country be shared equally by all."[1] This judgment, perfectly sincere in itself, seems, curiously enough, to condemn socialist schemes on the ground that they fall short of the undoubted *technical* efficiency of capitalism, while overlooking its grave *social* drawbacks which the majority of social or socialist schemes have chiefly at heart to remove.

A practical science

Socialism had thus been found wanting; yet this conclusion did not satisfy Marshall's 'social' inclinations, and there is something pathetic in the fact that the social sense which had revealed itself so definitely at the beginning of his career but was subsequently handicapped by the exigencies of a more formal science, still guided his pen when, more than eighty years of age, he wrote the last sentence of the preface to his last book. He concludes his preface to *Money, Credit and Commerce* with the words:

"Although old age presses on me, I am not without hopes that some of the notions which I have formed as to the possibilities of social advance, may yet be published."[2]

[1] Industry and Trade, P. viii.
[2] Money, Credit and Commerce, P. vi.

It was not only as a private individual that Marshall took a keen interest in the social aspect of economics; he also used his great influence to make it enter into the body of economic science. Sidgwick, we have seen, was not quite certain what place to give it, for, on the one hand, he was reluctant to acquiesce in the suggestion that such practical problems as had been dealt with by A. Smith and his successors should be eliminated from economics altogether and transferred bodily to Politics or what was then called the general Art of Government; yet, on the other, he did not see his way to incorporate them in the science of economics proper. He had therefore relegated them to a separate amorphous section known as the Art of Political Economy.

This method of establishing a sharp line of distinction between economic science and the application of economic principles to practice was rather insular. A very different view was taken by the majority of continental economists who, generally speaking, made little attempt to separate theoretical and practical problems, as J. N. Keynes already recognized. They even held that to treat these problems apart from one another was practically impossible, and so they would deny that economics can be regarded as a purely positive science; at any rate they held that the primary function of economics is to direct conduct to given ends rather than merely to consider facts and investigate theories. They further pointed out that English economists were themselves inconsistent in their pretension to construct a pure science of economics as, for instance, nearly the whole of the last book of Mill's classical text book of Political

Economy is concerned with the discussion of practical questions.

It is certainly worthy of note that Marshall who was ever so considerate as regards the views of his predecessors, and so cautious in expressing his own, did not hesitate to formulate his definite opinion on this subject, although it differed from that of his immediate predecessor and might, by some, be considered as contrary to national tradition. He realized that economics, as a science, had something to say about and to do with the economic problems of society, and, armed with the conviction that "the dominant aim of economics in his generation was to contribute to a solution of social problems," he dropped the old distinction and definitely upheld the view, which he embodied in his *Principles*, that "economics is a science, pure and applied, rather than a science and an art."[1] It was another way of recognizing that Economics is a practical science.

This practical outlook on economics Marshall further elaborated in *Industry and Trade*, which is a realistic study of modern business and industrial organisation. This work strengthens the impression that, for Marshall, economics is not a body of dogma but a technique for dealing with economic problems; a practical study of industrial and business organisation, and their influence on the conditions of various classes and nations. To some the book seemed to mark a falling away from the high standard of the *Principles*, while to others, perhaps more discerning, it rather served to emphasize Marshall's belief in economics as a practical science, which ought therefore

[1] Principles, P. 43.

to deal with real life. In this view a body of dogma may be a hindrance to the investigations of the economist, while a thorough understanding of the economic system at work is an essential part of his equipment. This later trend of Marshall's economic thought has even led some writers to regard him as closely allied to those economists who emphasize the "historical," or the "institutional," or the "genetic," approach to economic studies, and by thus associating general theoretical reasoning with a wide and thorough study of facts, to deserve the title of the greatest of modern economists.[1]

It has seemed of some interest to bring out this social outlook of the man of whom it has been said that so far as there is to-day any generally accepted body of economic doctrines among English-speaking economists, it is largely what Marshall made it;[2] yet also the man whose mind from an early age was divided between humanitarian zeal and a strong bent for abstract intellectual pursuits; a humanitarian eager to lighten the burden of mankind, but sobered by the barriers revealed to him by the Ricardian political economy.

It would probably not be far wrong to add that in his desire to do justice to both the theoretical and the social aspects of our science, Marshall occasionally blended them in such a manner as to dissatisfy both schools of thought. A hint has already been given and more will have to be said hereafter on the rather unsatisfactory method of his approach to the social problems. On the other hand experts in economic

[1] Contemporary Economic Thought, P. 279.

[2] Loc. cit. P. 195.

theory have discovered flaws in his theoretical armour, and one of them is particularly relevant to our subject since it refers to the very definition of economic science given by Marshall to which special reference was made as expressing his social bent of mind.

Science of choice

In his *Essay* to which reference has already been made, Prof. Lionel Robbins raised the issue with his characteristic vigour.

"The definition of Economics," he says, "which would probably command most adherents, at any rate in Anglo-Saxon countries, is that which relates it to the study of the causes of material welfare. This element is common to the definitions of Cannan and Marshall. . . . And at first sight, it must be admitted, it certainly does appear as if we have here a definition which for practical purposes describes the object of our interest. In ordinary speech there is unquestionably a sense in which the word 'economic' is used as equivalent to 'material'...But the final test of the validity of any such definition is not its apparent harmony with certain usages of everyday speech, but its capacity to describe exactly the ultimate subject-matter of the main generalisations of the science. And when we submit the definition in question to this test, it is seen to possess deficiencies which, so far from being marginal and subsidiary, amount to nothing less than a complete failure to exhibit either the scope or the significance of the most central generalisations of all." [1]

[1] Loc. cit. P. 4.

Prof. Robbins' challenge against Marshall's definition, therefore, is that it fails to describe *the ultimate subject-matter* of the science, and he substitutes one which, to his mind, does so. "Economics," he says, "is the science which studies human behaviour as a relationship between ends and scarce means."[1] The fact that the means available to secure given ends are scarce, is central in economics; it implies a *choice* of means, and wherever such a choice is made man acts economically. This happens whenever means are scarce or limited, and, at the same time, are capable of alternative uses.

What are we to think of this substitution?

Prof. Robbins cannot be interpreted to mean that Marshall and the Anglo-Saxon economists have overlooked the 'scarcity' principle: it is at the very basis of all economics and it is essential to the definition of wealth. On the other hand the problem of the capacity of such scarce goods to serve in alternative uses is one of Marshall's main contributions to economic theory in his *Principles*; it is enough to refer to his masterly exposition of derived demand and of the working of the principle of substitution.

We may therefore infer that the point raised by Prof. Robbins is not against the adequacy of Marshall's economic doctrine. It is rather the fact that so central an economic concept has not, but should have, found place in his definition of Economics, and not the study of the causes of welfare, least of all of material welfare.

So far as pure theory is concerned it may be granted that Prof. Robbins' definition is the more

[1] Loc. cit. P. 15.

exact of the two, in as much as it seizes on scarcity as the essential economic concept; although considering that behaviour can hardly *be* a relation, it is somewhat peculiar to speak of behaviour as a relationship between ends and scarce means. It can further be admitted that the term 'welfare' has probably been responsible for some confusion in the field of economics. For instance, it has sometimes been assumed that economic truth depends on the validity of Hedonism or of Utilitarianism, whilst they were only just two illustrations of an assumed right ethical motive. Again, it is true to say that 'welfare,' and 'the greatest happiness of the greatest number,' have at times been taken as synonymous, which in fact they are not; but, as Prof. Cannan aptly retorted, the wrong use of a word is no justification for rejecting the word itself. Readers of the *Economic Journal* are aware that Prof. Cannan was still with us when the book of Prof. Robbins appeared, and that he put some 'plain speaking' in his review of the findings of his old pupil.

But even this partial recognition of Prof. Robbins' definition hardly touches more than the fringe of the broad problem he has raised, for his definition is followed by implications which change entirely the angle of vision.

"Economics", he writes, "is concerned with that aspect of behaviour which arises from the scarcity of means to achieve given ends. It follows that Economics is not concerned with ends as such. To speak of any end as being itself 'economic' is entirely misleading...There are no economic ends. There are only economical or uneconomical ways of achieving given ends."[1]

[1] Loc. cit. P. 23.

"I do not know," replied Cannan with robust common sense, "how to reconcile the admitted existence of 'the economic system' in its present form with the non-existence of economic ends....When people ask the professor whether such a change will be good or bad, they will only find him tiresome if he pretends that he knows nothing of good and bad ends in economic matters and can only talk about the cheapness or dearness of different ways of attaining a given end."[1] Moreover Prof. Robbins himself, in his own explanation, fails to establish that 'economics is entirely neutral between ends.' For after stating that there are no economic ends but only economical or uneconomical ways of achieving given ends, he proceeds: "We cannot say that the pursuit of given ends is uneconomical because the ends are uneconomical; we can only say it is uneconomical if the ends are pursued with unnecessary expenditure of means."[2] But unnecessary expenditure obviously means improper expenditure, and if uneconomical expenditure is improper, it surely implies that 'economy' is the proper thing to be achieved, i.e. economy is *an end* and waste is bad. Thus, from Robbins' own premisses, we are led to the conclusion that a "rational," i.e. economical choice is something worth striving for, that it is an end towards which the economist cannot be indifferent.

Thus is revealed the practical impossibility of isolating human behaviour and human choice from their natural purpose, or of constructing an isolated economic science "entirely neutral between ends." The

[1] Economic Journal, 1932, P. 425.

[2] Loc. cit. P. 129.

danger of such an isolation has been emphasized by several critics, but by none more vigorously than by Prof. R. W. Souter. In his review of the book of Prof. Robbins, he concludes a powerful study on what he calls a "formalist economic science working in neurotic isolation" with an appeal "to face boldly in a constructive spirit the theoretical problems of Normative Economics conceived as organically related both to philosophical ethics and to political philosophy. . . . The conception of a merely mechanical universe in economic theory possesses no intellectual bulwarks capable of withstanding the slow, but all-devouring advance of a growing communist and collectivist theory...To those who believe that the economic problem of Society in its comprehensive form, is one for economists as well as for philosophers, there is to-day a challenge to face the resultant problem of effecting a constructive intellectual synthesis which can only be secured through the organically united efforts of economics, political philosophy and metaphysics itself."[1]

"Ambiguous regions"

The rigidity with which Prof. Robbins would exclude economic ends from the science of economics, is on a par, and is in fact intimately connected with, the rigidity with which he would contract the area of economic science itself. Indeed a great part of his book is taken up with indicating topics with which the economist should not concern himself—psychology, technology, economic history, ethics, etc. It may

[1] Q. J. E. May 1933, P. 413.

here be pointed out that if Prof. Robbins was to be logical with himself,—and he is nothing if not logical, —he had to reach some such conclusion, once he had, with Recardian thoroughness, made deductive methods and abstract reasoning *the* method of economic investigation. The study of the distribution of scarce means between competing ends being presented as the only basis on which the economist can achieve definite results, the analysis of this problem leads to a system of generalisations which are all deduced from self-evident first principles, and can thus claim to be a body of scientific truth. To get away from the deductive analytical method amounts for Prof. Robbins to abandoning the reality for the shadow, or at any rate, the certain for the speculative; and this, he holds, happens whenever the economist goes out of his way into the fields of history, technology, psychology or social ethics. The results then obtained are not certain, they are empirical, they are not *scientific.* Prof. Robbins' reasoning thus really rests on the curious assumption that the object of a science is limited by the possibilities of the method selected to study it, and thus the field of economics is by him restricted to what the deductive analytical process can cover. On the other hand, for those who admit the social character of economics, the object of economics necessarily extends beyond the limits of deductive analysis. "Economists," says Prof. L. M. Fraser, "are faced continually with practical questions. Their theoretical work is important not so much because it yields truth as because it provides a technique whereby practical and social problems may be solved. Knowledge in economics is valuable as being "fruit-bearing" rather than "light-bearing," as

assisting human well-being rather than as providing knowledge of ultimate reality."[1]

It has seemed useful to expose in some detail the challenging views of Prof. Robbins because the issues they raise are fundamental both in regard to the essence and to the extent of economics, and also because we shall still have to meet some of them in the course of these studies. At present it is enough to remark that the 'social' character which was revealed in Marshall's trend of thought can have no place in Prof. Robbins' expurgated edition of economic science. But his efforts to clear the economic field from what he calls the 'ambiguous regions', and his unconvincing sarcasm that "the border-lands of economics are the happy hunting-ground of the charlatan and the quack," have had an effect rather different from what he probably intended. For it is precisely against his thus narrowing the economic field that his critics have been particularly severe. "It would be a great pity," said one of them, "if the charlatan and the quack were to be left in undisputed possession of the hunting field, and the right persons to oust them are the economists themselves, for economists alone have the equipment for changing the 'ambiguous regions' from deserts into gardens."[2]

In fact, and apart from the 'Austrian' outlook which permeates Prof. Robbins' book and which, for this reason, is liable to be judged more severely by opponents of that School,—one critic calls the book Prof. Robbins' *credo* as an adherent of the Austrian

[1] Economic Journal, 1932, P. 566.
[2] Loc. cit., 1932, P. 567.

School,[1]—there is general agreement among the critics, to regret, and even to resent, the exclusion from economics of those problems in which the social aspect of the science is brought out. Thus, by way of reaction, Prof. Robbins has helped to reveal that economists to-day tend to give up the classical attitude of 'splendid isolation' and self-satisfied complacency, for one of real concern in the social aspect of economics.

Prof. A. L. Macfie, the well-known author of *Theories of the Trade Cycle*, goes even further, and, in his book on *Economy and Value*, strongly emphasizes not only the social but also the ethical aspect of economics: "The older view that economics is entirely objective and positive led to the well-worn attitude that ethics should not criticize economics; that we can keep our business separate from our religion. Similarly this fallacy feeds the easy view that such deep-seated diseases in the body-politic as the trade cycle can be cured merely by currency or investment manipulation. And, on a cruder plane, all the cranks bred by depressions promise facile Eldorados from the scattering of paper tickets. It may be that the trade cycle can be cured from above. The Soviets can claim this. But it remains undeniable that business fluctuations are themselves just manifestations of deeper ethical and psychological tendencies. We may stop the depression. But until we cure their ethical and instinctive sources, we have no grounds for believing that we will not be jumping from the frying-pan into a perhaps slightly more comfortable fire. So

[1] R. W. Souter: The Q. J. E. 1933. P. 377.

both economists and philosophers have a duty to apportion to economy its proper-weighting socially."[1]

Science of human values

It is not to be wondered at if, with his strong conviction that economics must return to the formal character of a pure theoretical science, Prof. Robbins could not easily put up with a very different, in fact contrary, development going on in the economics of the great Western Anglo-Saxon democracy. "In the last ten years," he writes, "there has been a great multiplication of this sort of thing (attempts to provide definite quantitative values for economic concepts) under the name of 'Institutionalism,' 'Quantitative Economics,' 'Dynamic Economics,' and what not; yet most of the investigations involved have been doomed to futility from the outset and might just as well never have been undertaken."[2] So general a condemnation is regrettable as it involves not merely some writers who have occasionally made excessive claims for the self-sufficiency of quantitative studies, but also recognized authorities in the field of economics. The interest, for us, of institutionalism lies precisely in the fact that it is a reaction towards a more concrete and practical outlook, against the old liberal school and its excessively formal and deductive character. It is the very antithesis of Prof. Robbins' belated appeal for a return to it. The American liberal school had developed into a mixed system combining, as best it might, the theoretical exigencies of

[1] An Essay on Economy and Value, P. 117.

[2] Op. cit., P. 102.

the English school with the historical influence of Germany, without entirely assimilating either. Prof. John Maurice Clark, a distinguished, if emancipated, son of the leading liberal economist—the Alfred Marshall of the States,—has wittily summed up this transitional period as one in which American economists "were gradually transformed from *laissez faire* protectionists to free traders who believed strongly in the positive function of the State in economic life." The Pilgrim Fathers, as those early economists were subsequently called, who had gone to Germany for advanced study, brought back with them a social type of ethical background.... Their conception of the increased role of the State was at the service of this social ethics, not a narrow nationalism as manifested in Germany. They genuinely wished a broader ground-work of historical fact to put theory on a sound basis, not to displace it. On the whole they remained more nearly in the current of the English tradition than in that of Germany. A period of lively discussion next followed between the upholders and the opponents of systematic marginal economics which brought out more definitely the dynamic element in the study of economics, while the World War came to intensify the pursuit of more urgent positive problems as against mere theoretical discussions. The result has been the production of various types of positive studies, involving the analysis of quantitative behaviour with its chief interest centred on the problem of economic fluctuations. It is along this development that went the growth of Institutionalism, that elusive movement which American writers themselves find it difficult to define. Its essential character is not the denial of the usefulness of analysis,

but the belief that the most fruitful field of economic research is to be found in the concrete problems of economic organization rather than in the subtleties of pure economic theory. So long as it is not exclusive this tendency opens a way to a better appreciation of the social liabilities of economic science and, as such, is to be welcome. Its practical outlook has been forcibly expressed by Prof. J. M. Clark himself:

"Economics," he says, "inevitably involves two things: a description of the way economic forces work and a study of the economic efficiency which results. Is there such a thing as an ideal of economic efficiency? Can the theory of economic efficiency stop short of the whole problem of ideals of good conduct and welfare, in short, of moral ethics? Certain limitations have been tried and discarded. First was the conception of the production of material wealth, excluding intangible services. This has given way, for better or for worse, to the broader conception of the production of 'utilities' at the cost of 'disutilities' so that economic efficiency has become, at bottom, a psychological conception. It is now a matter of human values and their organisation. But this of course is the whole problem of the modern pragmatic ethics."[1] This is a frank and valuable expression of opinion both in itself, as coming from so distinguished an economist, and in view of what we shall have to say hereafter.

It is not possible in this short survey to expose the views or even to give anything like a comprehensive list of 'social-minded' economists whether in Great Britain, the United States or the Continent. More

[1] Preface to Social Economics. P. 3.

will have to be said hereafter on some of them, but the names of Pigou, Hawtrey, J. A. Hobson, Marriott, Devas, Clay and Silverman come uppermost among English economists, while even in the liberal tradition of America, we find such well known authorities as Fetter, Taussig, Seligman, Carver, and Richard T. Ely. It is of interest to note that Prof. F. A. Fetter, at first an upholder of abstract theory, subsequently reverted to a more realistic conception of economics,[1] holding that A. Smith was right in studying the relations between wealth and welfare, that the emphasis on the problems of price was due to the chrematistically inclined mind of Ricardo, and that it was not the concept of price but that of social wellbeing which should be set up at the centre of our science if it was to attain to its highest ends. In this Fetter recalls Pigou. Among the many continental authorities who hold economics to be a social science two have been particularly prominent, Heinrich Pesch, in Germany, who published a work in four volumes[2] the popularity of which was testified to by its repeated editions, and Ch. Antoine, in France, whose cogent and masterly treatise[3] has gone through six editions and has been equally popular in all French speaking countries.

Social not Socialist

Before closing these preliminary remarks a word may be said on the relation between social and socialist economics. Although popular opinion has at

[1] A similar evolution is noticeable in the later works of other American economists.
[2] Lehrbuch der National Oeconomie.
[3] Cours d' Economie Sociale.

times been led to mix up the two concepts, economists, even budding economists, are aware that the two words represent definitely contrary, even contradictory, notions. It is not however quite so easy to draw the line accurately between the two, because a certain amount of common ground is covered by the words social and socialist. Broadly speaking we are on the right lines when we define socialism as that socio-economic organisation in which the State becomes the sole owner of the sources of production and of the means of distribution. Nevertheless we shall have to note that genuine socialism does not abolish all forms of private property, even of the means of production, and that, on the other hand, States may own productive agencies and manage industries without being thereby reckoned as socialist States. Again socialism, for perhaps the majority of the rank and file, means primarily the uplift of the working classes and a better all round distribution of wealth, but for this they need not be socialists at all. Social economics pursues the same ideal while demurring to its being therefore identified with socialism.

Perhaps the shortest and clearest way of drawing the line between the two is to say that the word socialism covers all the theories—for there are various forms of socialism—which attack and condemn the *personal right of private ownership* of wealth, as distinct from the *abuse* of it; and that social reform, on the other hand, defends the *right* while condemning the *abuse*. Thus it is the rejection of the *right* of private property as a human right independently of State authority, which characterizes genuine socialism; it is on this definite issue that socialism and social

reform sever all contact, and that social economics can have nothing in common with socialist economics. This remains true even when there seems to be agreement in the pursuit of some particular object. Thus excessive inequalities in the distribution of wealth are as repugnant to the social reformer as to the socialist; but the methods respectively employed to remove them are totally different.[1]

The purpose of these preliminary remarks has been to indicate, in however cursory a manner, the place which the concept of economics as a social science has broadly held in the evolution of the liberal economic thought in which most of us have been trained. We shall have to examine next the nature of the concept itself, define its implications and establish its place in the field of economics.

[1] More will have to be said hereafter on the economic aspect of socialism, but our object at present is only to make it clear from the outset that we uphold Economics to be a social science, not a socialistic science.

2

SOCIAL FOUNDATION OF ECONOMICS

SOCIAL economics is in broad agreement with Prof. A. Marshall's definition that Economics is a study of man's actions in the ordinary business of life, those human acts, individual and social, which are most closely connected with the attainment and the use of the material requisites of wellbeing. It mainly endeavours to work out the full implications contained in the terms of this definition.

Man, it is well known, is the subject-matter of several sciences which nevertheless are distinct from each other because each science studies man under a particular aspect. Thus, while it is true, in a sense, to say that anthropology and its related branches of anatomy, physiology and psychology study 'man' as their prime object, there is none the less a world of difference between these natural sciences which take into consideration the physical life and the physical functions of the living organism, and those other sciences which study the nature, functions and purpose of *human actions*, properly so-called, those higher activities, namely, which reveal an agent endowed with reason and free-will. It is among these latter sciences known as social sciences that social economics finds a place.

Man's nature as 'personal'

More definitely the human acts which form the object of economics belong to that group of activities which man performs when he acts characteristically as man, that is, when he acts as a free rational agent. Not all human operations are thereby included. Growth, digestion and all actions performed in sleep and unconsciousness must be excluded, because they are not acts performed by man as man. They are called 'acts of man' in as much as they originate from him but they are not human acts.

Moreover, it is because he is a free rational being that man stands in a class by himself apart from all other visible beings. He is a *person.* In the language of law and of philosophy 'person' is opposed to 'thing,' the word person applying exclusively to an individual endowed with reason and free will. In view, however, of the importance which the 'individualist' concept has played in economics, it is worthwhile noting at this stage that 'person' and 'individual' are not identical terms. In fact the notion of 'individuality' is intermediary between 'person' and 'thing' in the sense that it can apply to either group of beings. It is used either of a 'person' or of a 'thing' which is so essentially one that it cannot be divided without being destroyed.

While this note of 'individuality', which is common to man, beast and flower, expresses only the organic unity of the object, 'personality' is a far richer term connoting definite prerogatives which are the exclusive privilege of a rational agent and reveal

at the same time the full nature of those 'human acts' which are the object of our study. Briefly we may say that the human person is endowed with the triple prerogative of self-knowledge, self-ownership and self-control. He is the only visible being who can get at an introspective knowledge of himself, of his thoughts and his acts, who belongs to himself and can control his inmost thoughts and acts.

These prerogatives are not to be conceived as something superimposed on human nature; they are essential elements of that nature, as are also the rights and responsibilities which these prerogatives necessarily entail and which, for this reason, are called the natural rights of man, being his own in virtue of his very nature, whatever opinion to the contrary may have been held, either by liberal economists who would make the State the creator of these rights, or by socialist doctrinaires who would summarily deny their existence altogether.

What are these rights? Philosophy tells us that a right is an inviolable moral power entitling one to hold something as his own or to do something. It is not a physical power, though one may defend it by physical force. In fact, while it is false to say that might is right, it is nearer the truth to say that right is might in the sense that a right carries with it the right to its defence as in the case of unjust aggression. A 'right' being a moral power necessarily belongs to a *person.* A *thing* has no right. A person is necessarily his own; a thing is another's; hence slavery is against nature. It will also have to be carefully noted that in relation to the State, the individual man is a person and that as such he has rights against the State.

These rights are said to be either *connatural* or *acquired*. The former spring from the very being of man, as an individual person. Such are the rights to life, to honour, to freedom of conscience, to personal liberty—or freedom to go where you will,—to civil liberty,—or not being a slave,—also the right to marry and to acquire property. This last mentioned right is a necessary extension of man's right to personal liberty, for this would be a barren freedom were he not empowered to make legitimately his own those things which are required to satisfy his natural necessities, since by nature man is not self-sufficient. *Acquired* rights, on the other hand, spring from some deed of man annexing something to his personality. Such are the rights to property legitimately acquired, to reputation, to the political franchise and all rights that come by contract. Acquired rights are usually transferable.

Man's nature as 'social'

This last series of human rights, implying as they do relations with other human beings, brings us to that aspect of man's nature which is of primary importance to our study of Social Economics. Man can be viewed from a twofold aspect, each of which is formally distinct from the other, though they are both necessarily co-ordinate. He is at the same time an *individual* person and a *social* being in the sense that while he is a person with a distinct individuality, an end in himself, (if we make abstraction of the higher claims of his Creator), this individual personality gives an incomplete notion of man if his *social* character is left out of account; and similarly his social character,

taken by itself would be a distortion of man's nature, if it were shorn of his individual personality. We shall have to point out later that these two essential characteristics of man have been sacrificed in turn, the social character by excessive Individualism and the personal character by Socialism.

As an individual person, man, we have seen, is endowed with definite moral rights,—the inviolable autonomy of the person and the inviolable dominion over the things he is entitled to claim as his own. It is this inviolable character of human rights which is at the basis of the social order: man's claim to have his rights respected by others involves on him the reciprocal duty to respect the rights of his fellowmen. We are thus brought face to face with the social problem: the individual person having rights and duties towards society and society towards the individual.

There is no need to establish here what the Greek philosopher proclaimed already more than two thousand years ago, that man is by nature a social animal; but we shall have to weigh the far-reaching consequences of this statement. In a real sense it may be said that man is the architect of his destiny; yet he is also absolutely dependent on others; he is a self-determinant unit, with a personality of his own, and at the same time a dependent unit as a member of Society. And while we shall now consider him from the latter point of view, we should not lose sight of the other aspect already explained, his individual personality.

That a society of some sort is necessary and therefore natural to man is pragmatically obvious.

A society is a stable moral union of persons for mutual co-operation toward a common end. Some societies, for example a social club, or a commercial union, owe their origin to free association, and may be termed conventional societies. But there are two societies—the domestic society or Family and the civil society or State—which are necessary or natural in the sense that they come into existence in response to essential human tendencies and character, to provide for needs which spring from human nature. We are now directly concerned with the civil society. This civil society is a 'natural' institution in the sense that it is a necessary sequence of man's nature, an integral part of the design of the Creator, and not the product of mere chance or mere convention. It is natural inasmuch as it is the necessary expansion of the family, which, if it has to develop, cannot but grow into some form of complete society or State. And again it is natural because it is the one means of such human development. If man is not to remain confined and under-developed in his conscious activities, he must find development in a more complete institution than the family, and this ultimately is that *perfect, self-sufficing community, united under a common authority, for the attainment of the common temporal good of the whole community*, which we call the State. In contrast with the family, the State is called a perfect self-sufficing community, because it does not naturally depend for its existence and progress on any society outside it, and it contains within itself the means required to attain its end. A further conclusion to be noted is that civil authority is as 'natural' an institution as the civil society itself since it is the organ without which civil society could not achieve its end.

The Natural Law

In this short and, perhaps, unduly dry survey of fundamental principles, enough has been said to indicate that, whether as an individual or as a social being, man's behaviour is governed by the law of his nature, which is itself the expression of his Maker's will. Being endowed with reason he is normally expected to know what reason demands of him, and, as a free agent, he has in him the moral power to realize it. The law, therefore, is based on the assumption that man, endowed with reason, is normally expected to act reasonably,—nothing less, nothing more. This Law of Nature, it need hardly be said, is totally different from the assumed natural laws or so-called economic harmonies which the classical economists devised to buttress their economic fancies. It is rather, as St. Paul says, God's law written in our hearts, urging man in all his conscious acts to keep the moral order,—do good and avoid evil. It is of course one thing to know in general that an act is good which conforms to man's rational nature, and quite another to know whether this or that particular act so conforms or not. This necessary distinction accounts for the wide discrepancies which sometimes occur between the decisions arrived at by equally sincere men, let alone the insincere; but far from weakening the general law, these discrepancies are an additional proof of its necessity as the ultimate standard of all deliberate human activities. It is the supreme test because it expresses the essential moral requirements flowing from human nature itself. Moreover it is called

the natural law because it is stamped in all rational beings, at the very least in that most general form of its precept—do good and avoid evil, however broadly or strictly or vaguely different human beings may interpret this general obligation.

The Natural Law is a moral law because, though it may seem paradoxical, it governs the free actions of men. It is designed to bring man to his goal in life, ultimate happiness; but not by imposing a physical necessity (as do physical laws) which would destroy his freedom. This necessity is moral, obliging man to certain choices, but leaving him physically free to reject them. The choices are dictated in one sense by human reason inasmuch as reason discovers them; they are dictated in a higher sense by God Who promulgates the law in the very creation of man as a free, rational, and therefore moral, being.[1]

The Natural Law is not limited to individuals. Being the natural and necessary complement of the family, just as the family is of the human individual, the State or civil Society is also governed by the natural law of its members. Its existence and purpose must be founded on reason and this purpose can be no other than the attainment and realization of the common temporal good of the society. This statement requires some explanation because this common temporal good is the broad social field from which the different social

[1] "The Natural Law is unchangeable because man's nature is unchangeable. He can no more change this law of his nature than he can change the direction of the stars. One man, or all men together, can no more make abortion or adultery right than they can make cyanide of potassium good to eat. The latter is physiologically bad because it disagrees with man's physical nature; the former are morally bad because they wreck man's moral nature." [The Modern Schoolman, 1939, P. 10].

sciences, and social economics in particular, take their origin and through which they maintain their mutual contacts.

The common good and civil authority

What, then, do we mean by the common temporal good of society? In answering this question we must first bear in mind that though the State is the completion of the family, it is more than a mere aggregation of families. The family exists for the good of its individual members, and not a few perhaps may be surprised to hear it said that the family exists for the child, not the child for the family. The State, on the other hand, does not exist directly for the good of the individual families composing it, at least not as *individual* families, but it exists for that common good of the whole society which it is beyond the power of individual families to secure.

The need for the existence of the State in fact arises from the inability of the family to provide that complete life, physical, intellectual, social and moral—the 'good life' of the Greek philosopher—which a perfect society alone can help to realize adequately. Thus the State exists to enable a group of families and their members to develop harmoniously and thereby to procure for them and with them the common good of the whole social body.

Without going into lengthy details, one or two instances will make clear in what directions the share of the State in the attainment of the common good is to be looked for. It is obviously bad for the social

body that its life should be passed in disputes as to mutual rights and wrongs, arising out of supposed observance or non-observance of the rights of individuals (the Natural Law). There is needed some authority to determine in detail natural rights and duties in regard to property, the fulfilment of contracts and the like. Hence the common good demands that such an authority be established. Again there will always be some members of Society for whom might is right. Such men are liable to become disturbers of the public peace, and no mere moral considerations will suffice to restrain such unruly spirits. They can only be coerced. Some authority must therefore be set up which shall be able to coerce them. The common good demands this and the State empowers its officers to deal with the matter.

We are now in a position to draw an important conclusion. Under the Natural Law which it has juridical authority to clear up and to specify in its particular applications, the Society-State exists to further the temporal good of the community as a whole. In order to secure this end it is not merely entitled to expect the co-operation of the members, it has also the duty to assist them by creating and maintaining those general conditions ("*milieu*") mental, moral and material, in which families and individuals can pursue their own improvement. This clearly involves that a moral responsibility exists both for society as a whole and for the individuals composing it, which, in other words, means that the existence and the progress of civil society rests on moral principles, and that the human activities which co-operate thereto must be judged by ethical standards.

The fact that the Society-State is thus made the ultimate responsible agent of the common good, should not be interpreted in any totalitarian sense; the extent of this responsibility can be clearly understood in the light of the fundamental principles previously explained. We then said: it will have to be carefully noted that, in relation to the State, the individual man is a *person,* not a mere chattel, and that consequently he has rights against the State.

The end of civil society is the temporal felicity of the community over which it rules, which means that its members may live in it in peace and justice, with a sufficiency of material goods for a decent human life and with that integrity of morals which is requisite for the external peace and welfare of the commonwealth. The *function* of civil authority is thus marked out as essentially *supplementary,* as naturally destined to supply for individual citizens what they and the individual families cannot provide for themselves.

The State may be conceived as an organism but one based on a moral bond. Civil society may be defined as a body but we must beware of too close a comparison with the human body. The members of a physical body, arms, feet, heart and lungs, etc., exist *only* for the good of the whole of which they are parts and outside of which they have no significance save to the student of anatomy. The members of the moral body which we call civil society are *persons,* each with an individual end in life and a sacred destiny. The members of civil society exist for themselves and the moral body to which they

belong must treat them as such. It exists for them, not they for it.

The great political problem is in fact that the State should fulfil its function adequately and yet not trespass outside its province. There is a nice balance to be preserved in the mutual relations of ultimate subordination between the State and its members, failing which either the State becomes a mere instrument for the use of its members, and thus loses its right of authority over them, or the members are mere instruments for the use of the State, and are reduced to the condition of chattels losing the rights which attach to them as persons, —rights which are the moral bulwark against despotism.[1]

If an apology were needed for thus dwelling at some length on the principles which govern the end and purpose of civil society, it would easily be found in the dire consequences which under our eyes have resulted from their rejection. The theory which makes the State an end in itself rather than a means to the common good, and national power the primary and ultimate end of State activity, leads almost inevitably not only to the neglect of that common good but to the practical negation of the most elemental rights of citizens under an irresponsible dictatorship. Ignoring the fundamental principle that the State exists for the individual, totalitarianism assumes that it is the individual that exists for the State, upsetting the right order, denying personal rights and thereby making slaves of its citizens.

[1] Lewis Watt: The Rights and Function of Civil Authority. The Month, 1930, P. 332 (passim).

Scope of social economics

We have so far referred to civil society as a whole and to the common temporal good which it is its object to procure. This common good, however, is made up in practice of a number of particular goods which are sufficiently diversified to give rise to specialisations in human activities and to different forms of social progress material, mental and moral. In other words the common temporal good which is the object of civil society presents itself in practice under the form of particular goods investigated by, and giving rise to, specialized human endeavours within the general ambit of the civil society, and which the State has the duty to recognize, to protect and to assist.

We thus find ourselves in presence of a number of social fields of investigation fundamentally linked together as parts of the common good, yet clearly marked out from each other by their different objects, while forming together the broad field of the social sciences. As indications of these scientific pursuits we may mention the fields of Sociology, of Politics of Economics, of Law or Jurisprudence, of Religion, of Ethics, of Psychology, of Education, etc.[1]

Two aspects therefore characterize the social sciences, their basic unity and their distinctive individuality. Their basic unity refers to their combined pursuit of the common good which embraces all the

[1] The natural sciences stand on a different plane. They are neither human in their object nor social in their structure. They deal only with material objects, their nature, properties and the natural laws which govern their being. These laws are rigid, independent of any human influence. The discovery of these laws and their application to the material world is the sole object of the natural sciences.

elements which together secure the complete development of man as a free, intelligent, moral and social being. Yet, while thus co-operating to that common good, each of the social sciences has its distinctive way of approach, just as artillery, infantry and the air-force co-operate in different ways to the common victory. They each pursue their particular object as part of the common goal on the principle, well-known to economists, of division of labour based on the variety of particular objects which all tend to one common end.

What then is the particular object of Social Economics? It is concerned with those activities and efforts of man the purpose of which is to provide directly or through exchange those material goods and services which are needed to satisfy man's wants and thereby to procure his wellbeing. By pointing to the attainment of man's wellbeing as its proper object, Social Economics, in agreement with Marshall, emphasizes that economics is not primarily a theoretical but a practical, fruit-bearing science intended *for man's* betterment; while Prof. Robbins' definition, rejecting economic ends, can point to man only as the agent *by whom* the economic activity is performed. "Too often," says Prof. Ely in this connection, "those who have expounded the science have considered man simply as producer of wealth, the one *by whom* the necessaries and conveniences of life are created, whereas the infinitely greater truth is that man is the one *for whom* they are all produced. The result is that men devise with great skill rules by which man may be made the best possible manufacturing machine. It sometimes quite escapes the notice

of these persons that in making man the best possible manufacturing machine they may make him a very poor sort of man." [1]

From the point of view of Social Economics, therefore, it is man's activities, not wealth, which must be regarded as the formal object of the science. And since, from the same point of view, the object of economic science should express both the common good which it partly endeavours to realize, and those particular activities which give it its distinctive character, we may define Social Economics as *the science which establishes the laws of human behaviour concerning the material interests which form part of the common good of Society.* This definition brings out the truth that economics is a practical science, that human activities, not wealth, are its chief object, and that these activities bear the stamp of a free, rational and therefore moral agency whose purpose it is to concur, with other social agencies, in the attainment of the common good of Society.[2]

Scientific co-operation

The statement that the nature and purpose of social economics involve moral issues should be clearly grasped. A *moral* issue is distinct from a *religious* issue. Morality and religion are two different concepts;

[1] Outlines of Economics, P. 3.

[2] Instead of the 'common good' some authors speak of the 'social order' which is perhaps less usual though perhaps more definite. The deep mind of St. Augustine was fond of that word as when he defined virtue as 'ordered love' and beauty as 'the radiance of order.' Order in fact means that happy condition of things in which every part or unit is in its right place, normal, healthy, suitable, efficient; and if we apply it to our subject it can be seen that 'social order' expresses very aptly what is usually meant by the common good of Society.

and though social and moral values are usually related to man's religion, it does not follow that society and economics are religious matters or part of the religious sphere of life.[1] It is not as religious matters but as spheres of *human* culture and as systems of free human acts tending to the attainment of the common good that they form part of the moral order.

It should also be realized that when social economics is said to involve moral issues, this in no way implies a confusion of the two sciences. Economic science and moral science are formally distinct; they have each their own guiding principles; they each, so to speak, stand on their own feet and follow the laws of their nature. This recognition of the respective autonomy of the two sciences does not, on the other hand, exclude all relationship between them or with other sciences. An illustration will make this clear. Mathematics and Physics are undoubtedly distinct, autonomous sciences. Nevertheless not only do not the laws of Physics preclude the guidance of mathematics where such guidance is required for the solution of a problem of Physics, but they implicitly call for this guidance since it is the means of reaching the right physical solution. Again the law of diminishing returns is a physical law, and while economics has not to establish or to prove it, it accepts it from another science and uses it for the solution of its own problems. Social economics applies the same principle to the relations between economics and ethics. Once it is admitted that the activities of free human beings are

[1] This observation may have its importance in India where religious and social concepts have at times been so inextricably mixed up as to make it almost impossible to draw the line between the two. The caste system could afford illustrations.

the object of economics the conclusion follows that there are bound to be intimate relations between economics and ethics over an object which belongs partly to both sciences.

The principle at stake in these illustrations is the claim, too little heeded in the past, of the natural relationship which exists between the various sciences. It is ultimately because the mind of man is finite, and because it can grasp only one thing at a time, that the whole field of knowledge and truth has had to be split up into separate sciences; but this separation has its own drawbacks, and it has frequently to be overlooked when the object of a particular science is found to depend, under certain aspects, on another science as well. The inconveniences of an excessive division and separation of the social sciences have recently drawn the attention of thoughtful economists.

"Economists," writes E. F. M. Durbin, "are doing two things and doing them well, but doing them separately,—proceeding with the construction of systematic theorems in pure logic based upon assumptions,... and on the other hand (producing) an immense outpouring of statistics about everything from bank-clearings to the consumption of cosmetics. But broadly speaking there is no relationship whatever between this empirical work and the concurrent output of theoretical logic. The consequence of this unnatural divorce between theory and fact is disastrous (irregular). It is because of the separation of elements that should be united that we have, as economists and social scientists, so little sense of progress, so little proof and disproof, such deep and humiliating disagreements."[1]

[1] The Economic Journal, June 1938, P. 185.

The same subject was again taken up in greater depth by Prof. Suranyi-Unger, the Hungarian expert, of whom the late Prof. Seligman wrote: "There is, to my knowledge, no other living economist who has such a complete mastery of the world literature on the subject."[1] Convinced that the study of economics should not stop short of the theory of economics and that the economist should not even limit his scope to mere economic *facts* but must also pay attention to the ends of economic policy, Prof. Suranyi-Unger says: "In so doing a new province of research,—a hitherto badly neglected part of 'meta-economic' problems,—will be revealed to him. These problems may justly be called 'meta-economic' because, while located beyond the traditional borderlines of economics, they are equally incapable of being incorporated in other branches of the social sciences."[2] We shall refer again to these thought-provoking suggestions.

It should not be thought that the foregoing remarks are meant as a condemnation of the division of knowledge into various sciences. This division is necessary to bring knowledge to the level of man's limited intellectual capacity. Without it man would not have to his credit the splendid achievements which this methodical, if piecemeal, pursuit of knowledge is responsible for. As observed by Durbin,[3] the natural sciences would have got nowhere if all scientists had studied the whole of the natural world. In the same way, the social sciences would have got nowhere if we had all taken the whole of society as our subject-

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[1] Economics in the Twentieth Century, P. v.

[2] Economic Journal, 1939. P. 7.

[3] Loc. cit. P. 191.

matter. Yet, while maintaining these scientific divisions, we are aware that even the natural sciences have at times to depend on one another to solve their problems although the objects of their respective studies are generally distinct and objectively independent of each other.[1] But as regards the social sciences we cannot even claim such objective independence; they represent only different 'aspects' or 'abstractions' from the one social reality. Is not economics a study of the *economic aspect* of social behaviour? Is not jurisprudence a study of the *legal aspect* of social behaviour? Is not moral science a study of the *moral aspect* of that same social behaviour? In other words the division of our social sciences is based on *abstractions* from one and the same reality, while the natural sciences are built up on distinct *sections* of the material world,—plants for Botany, animals for Zoology, crystals for Crystallography. Seen in this light the contacts between the social sciences can create no surprise; it is rather their absence that would be surprising. In the concrete world it is the same human being that serves as the common object of the legal, the political, the economic and the ethical aspects. It is the same human individual who lives at once a legal, political, economic and ethical life.

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[1] In his address at the anniversary meeting of the Royal Society held this year, Sir William Bragg, urging the need for a closer association between administrators and scientists in their different capacities, made the following observation:

"Science is of general application. There is not one science of chemistry, another of electricity, another of medicine and so on; there are not even distinct sciences of peace and war. There is only one natural world and there is only one knowledge of it." *(Nature,* 9 Dec. 1939).

Economics and Ethics mutually dependent

These remarks go a long way to explain why Social Economics, in as much as it emphasizes the *social* character of economics, is led to recognize a necessary and intimate connection between economics and ethics. How far this connection extends or how close it is, we have not yet examined, but the fact of the connection, and a connection of dependence at that, admits of no doubt to the social observer. Prof. Pigou, an outstanding representative of liberal economics, himself says: "Economics cannot stand alone; economics and ethics are mutually dependent. The first is hand-maid to the second."[1]

This statement may at first seem surprising, when it is remembered that liberal economists, with Marshall and Pigou at their head, maintain the principle of strict separation between the two sciences. "The laws of economics", says Marshall, "are statements of tendencies expressed in the indicative mood, and not ethical precepts in the imperative."[2] And Prof. Pigou: "Economics is not a normative but a positive science, and is concerned not with what ought to happen, but with what tends to happen."[3] As against these definite statements, however, we find such cautious safeguards as the statement of mutual dependence just quoted from Prof. Pigou, and Marshall's own admission: "Ethical forces", he says, "are among those of which the economist has to take account." He

[1] Economic Science in Relation to Practice, P. 13-14.

[2] Principles, P. vi.

[3] Loc. cit. P. 13.

even points out that "attempts to construct an abstract science round 'the economic man' who is under no ethical influences have not been successful nor even thoroughly carried out." Perhaps what Marshall says here of the failure of 'the economic man' theory might also apply to the fate of the indicative *versus* the imperative mood theory, for that too "has not been successful nor even thoroughly carried out." The main reason adduced for this separation by its upholders is that we ought to keep distinct the positive science of economics which looks at uniformities, from the ethics of economics which looks at ideals. We shall have occasion to examine this statement more critically, but the fact remains that its observance has, as often as not, been honoured in the breach.[1]

This a-moral character of economics has more recently been expressed in some such form as the following: economic activity, whether individual or

[1] "The dispute", says Prof. Devas, not without a touch of humour, "is partly a matter of words and arrangement: whether we shall keep all the prolegomena, the technical details, the selected extracts from physical science and psychology, the examples from history and from statistics, the probabilities of human action that can be reckoned on,—whether we shall keep all this in a volume by itself and call it political economy; and then put all our ethical judgments, all our praise and blame, in another volume called by some other name. Now this might be done, but would be very inconvenient, separating premisses from conclusion, and breaking off at the point of interest, when all the materials for judgment had been collected. We could hardly put up long with this inconvenience, as we see by the fact that the great body of economists who profess to have to do, as they say, with the indicative mood only, and not the imperative mood, cannot keep from trespassing not merely incidentally but habitually on the ethical field, as Senior complained, all the while doing it himself, as Mill and Roscher and Walker have done, not to speak of any living economists. The fear of bias is not much of an argument in favour of the separation of economics from ethics; for most economists have quite wit enough to know what practical results follow from their innocent looking indicatives; and open bias is better than veiled bias. Besides if our ethical judgments are interwoven with our studies of phenomena, I think we are not more likely, but less likely to interpret theorems as maxims." (Political Economy, P. 639).

social, involves a choice between scarce means applied to alternative ends. Such a choice is genuinely 'economic' when it is 'rational', i.e., implying the best disposal of means in pursuit of the maximum economic welfare. Now, this welfare has no ethical significance to the economist. Whether a particular method of spending revenue or the starting of particular industries is morally good or bad is none of the economist's business to decide. He is concerned only with the question: is it economically the best?[1]

Leaving the problem of economic welfare for a subsequent study, there is a serious flaw in the reasoning just referred to, for it wrongly assumes that a 'rational' and an 'economic' use of things are interchangeable terms. They are not, the former having a far wider connotation than the latter. They may even be opposed to each other: a kind-hearted man who gives an alms to a fellow creature in need, acts rationally though not economically. Man acts rationally or reasonably whenever he follows the dictates of reason, but the dictates of reason do not bear merely on economic issues. They cover the claims of human nature as a whole and not merely those which refer to man's material needs. We are of course aware that the 'rational' attitude contemplated in the argument we are now discussing, is restricted to economic matters, *qua economic*, implying only a striving after economic efficiency. This distinction, however, is purely logical, applicable only in the realm of pure theory, while economics, as a fruit-bearing science, does not deal with theoretical men

[1] Indian Economic Conference, January, 1940, P. 412 (passim.)

but with the concrete reality. In real life neither is the economist merely an 'economist' nor man merely an 'economic man'. Both are human beings in whom 'reason' governs all conscious deliberate acts, not merely on the principle of what is economically efficient but on the more fundamental principle of what is ethically right or wrong. The two aspects cannot be dissociated in real life and, if a clash occurs between the two, it is the ethical principle, because the more universal, which must prevail. As Prof. Pigou expressed it, economics is handmaid to ethics. This conclusion is irresistible once it is recognized that man, a free rational being, is the primary object of economics.

Who are the rebels? [1]

In contrast with this general attitude of aloofness from ethics which characterises the liberal School as a whole, there are eminent representatives among them who not only have admitted a contact between the two sciences but hold that there is an essential connection between economics and ethics. Reference has already been made to Prof. Hadley, the eminent economist and President of Yale University, who held that value is essentially an ethical term and concluded from it that we may have as many different theories

[1] The name 'rebel' has at times been given curious applications. "Every now and then," says a reviewer of Prof. J. M. Clark's *Preface to Social Economics*, "a rebel or group of rebels appears within the ranks of economists protesting against the so-called complacency, or wrong headedness, or static quality of the existing science. England has had its Cliff-Leslie, its Jevons and now has its Keynes; America had in the early 1920's its "institutionalists." (E. J. 1937, P. 516). It may be interesting in our present discussion to discover who the 'rebels' are between the upholders of the liberal, and those of the human, tradition concerning the relation between economics and ethics.

of value as there are different views of business ethics.[1] More recently and more critically Mr. R. G. Hawtrey has taken up the same position though on different grounds. After referring to the fact that economists are proud to claim that theirs is the most exact branch of social science, as also to their fear lest the intrusion into it of the vexed question of ethics should soon make an end of that claim, he nevertheless maintains that "economics *cannot* be dissociated from ethics."[2] His is what may be called an argument *ad hominem* against the position taken by Prof. Pigou in the opening chapters of *Economics of Welfare.* The argument is closely knit and vigorously pressed home. It is based on the assumption made by Prof. Pigou and the liberal economists generally, that 'economic welfare' (the object of Economics) is that part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money. The purpose of this distinction between measurable and non-measurable welfare (which, it should be noted, is not identical with the distinction between material and immaterial welfare), is of course that in economic welfare thus considered "there is present something measurable on which analytical machinery can get a firm grip," while an additional *presumption* has to be made that any gain or loss of economic welfare will be a gain or loss to total welfare. This distinction between welfare which is, and that which is not, measurable, is clearly not called for by the nature of welfare, since material welfare is found on either side

[1] Economics, P. 92.
[2] The Economic Problem, P. 184.

of the boundary line, so that the main reason for drawing the line seems to be to restrict the field of economic science to a limited object "on which the analytical machinery (or deductive process) can get a firm grip."

Moreover, Mr. Hawtrey objects to Prof. Pigou's identifying economic welfare with satisfaction, and implicitly basing upon it the individual consumer's disposition to prefer the greater good, as though welfare and satisfaction were identical terms. But they are not, says Hawtrey, and "we must reserve our freedom to say whether and to what extent any particular satisfaction is to be regarded as welfare." And he goes on: "*welfare here is an ethical term*; it comprises those things in human life which are good in themselves and which therefore ought to be chosen as ends of action economic or other. It must not be regarded as confined to material well-being or as subject to any similar limitation. It is co-extensive with the simple concept 'good' as applied not to means but to ends."

Prof. Robbins vs. *Mr. Hawtrey*

To these views, as could well be expected, Prof. Robbins emphatically demurs. Quoting Mr. Hawtrey's phrase that "economics cannot be dissociated from ethics," he says: "Unfortunately it does not seem logically possible to associate the two studies in any form but mere juxtaposition. Economics deals with ascertainable facts; ethics with valuations and obligations. The two fields of enquiry are not on the same plane of discourse." The answer to this statement would seem to be that Prof. Robbins is led into a

wrong conclusion because he argues from incomplete premises. It is true to say that Economics deals with ascertainable facts, but this is not the whole truth. It would be the whole truth if it were proved beyond the possibility of doubt that Economics deals with ascertainable facts *only*, but this is just the point under discussion, for, in the passage referred to, Prof. Robbins argues precisely against those economists who have urged that economics should *also* include normative conclusions. They have as clear a right to include them as he has to reject them so long as the question has not been finally settled.

As for the reason he adduces that "the two fields of enquiry are not on the same plane of discourse", his assertion may be readily accepted but not the conclusion he draws from it. To say that, because Economics and Ethics are not on the same plane of discourse, they cannot be associated except by mere juxtaposition, may be true as regards the process or method which is attributed to each respectively, but not as regards the object of the science to which they are applied, and it is the object, not the process of reasoning, which primarily matters in a scientific study. The process employed depends on the nature of the object to be studied; it may be mathematical, logical or ethical or all of them together, according to the requirements of that object. If the object of economics were only wealth a case might be made for excluding the normative process, though even that case would be a shaky one since ultimately wealth is wealth only because of man, and so the ethical element would still intrude.

Our friends in the legal profession have a position very similar to ours. Jurisprudence is broadly defined as the science of human law. No one is likely to deny that this science has to deal, for one thing, "with ascertainable facts." Lawyers busy with the preparation of cases are quite, and sometimes painfully, aware of this. But no one either would say that Jurisprudence consists only in the gathering of ascertainable facts of a case or of all cases. The facts are to be weighed in terms of the law, and the judge has to pass final judgment 'for or against': here come "the valuations and obligations." Thus Jurisprudence has to employ both methods in order to reach its object: lawyers cannot do without judges, nor judges without lawyers. Jurisprudence demands both and it would be unscientific to limit it to either of them. It remains true, as Prof. Robbins says, that the two fields of enquiry are not on the same plane of discourse, in as much as one exposes and the other disposes of the case, but this is a distinction between methods or processes only. While, as methods, they are distinct, their intimate connection is achieved as bearing in turn on the one same object of scientific enquiry.

The same should be said of economics which studies human actions as conducive to temporal well-being. We must no doubt begin by knowing what the facts are, but the object of the science is to find out whether and how far they tend to the realization of man's welfare. It is only when viewed in this light that economics takes its full human stature. The alternative is either to deny the existence of economic ends, as Prof. Robbins does, or to reduce economics to the level of a course of chrematistics or the art of

money-making. The former alternative, we have seen, cannot be accepted while the latter does not deserve serious consideration.

By thus stressing the ethical character of economic welfare, Mr. Hawtrey has brought us back, in his own way, to that common temporal good of Society which was explained above, and of which social economics endeavours to promote its allotted share. The nature and realization of this economic welfare will form the subject of a subsequent chapter.

3

POSITIVE AND NORMATIVE SCIENCE

IT is related that during a speech he was making at a statistical congress at Berne, Wilfrid Pareto, the eminent Italian economist, spoke of the 'natural economic laws' whereupon Schmoller, who was present, said there was no such thing. Pareto said nothing, but smiled and bowed. Afterwards he asked Schmoller whether he was well acquainted with the town of Berne. When Schmoller said he was, Pareto asked him again whether he knew of an inn where one could eat for nothing. The elegant Schmoller is said to have looked half-pityingly and half disdainfully at the modestly dressed Pareto—though he was known to be well off—and to have answered that there were plenty of cheap restaurants, but that one had to pay something everywhere. At which Pareto replied: "The natural economic laws, there they are."[1]

Evolutionary science

This incident placing in vivid contrast two outstanding though dissenting leaders of economic thought, may help to explain the difficulty of presenting a universally approved economic system. With

[1] Economics in the 20th Century, P. 128.

Schmoller we are reminded of the powerful reaction of the German School of national economics against what they called the insular narrowness and self-confidence of the Ricardian School and its limp philanthropic cosmopolitanism. At the other extreme Pareto, starting as a mathematician-engineer, at first overdid the dogmatic and strictly abstract mathematical character of pure economics, keeping aloof from the facts of real life. Subsequently, however, having realized the error of this aloofness, he did not hesitate to question that liberalism which before had appeared to him an incontrovertible dogma which no one must touch, and he applied his powerful mind to reconstruct an economic system on more social lines, investigating in what way, by the side of his old 'economic man,' the other half of his being, 'the ethical man,' influenced his actions. That the reaction of the German school had also good results has been neatly expressed by Marshall in the *Principles:* "It has done more than almost anything else to broaden our ideas, to increase our knowledge of ourselves, and to help us to understand the evolution of man's moral and social life, and of the Divine Principle of which it is an embodiment."[1]

From this and similar facts which could be multiplied, it will appear that economics is an evolutionary science in more senses than one, and that there are few tenets in it which cannot be, or have not been, challenged. The question whether economics is a positive or a normative science is a case in point.

No economist to-day would uphold the old classical definition that economics is the science of wealth. The

[1] Principles, P. 768.

influence of Marshall and a broader view of the economic field have brought about a wide recognition that economics has to deal with the actions of men in relation to wealth. After such a recognition it might be thought that the problem of a positive *versus* a normative science of economics no longer existed, since free human acts are necessarily moral and therefore objects of a normative science. But we have seen that this view is not usually accepted: economics is still held to be a positive, not a normative, science, and though trespassings on the normative field are frequent, these are regarded as strictly uneconomic. The reason sometimes given to justify this attitude, that the economist is not a moralist, is really no reason at all, for, though not a moralist, man is necessarily a moral being, so that even immoral people can be such only because of the moral character of man's nature. An animal cannot be immoral. Marshall, ever cautious, agrees that 'ethical forces are among those of which the economist has to take account;' but this recognition is of little practical value so long as economics is said to be a positive, not a normative, science. There seems to lurk in the minds of liberal economists a conviction, more or less conscious, that unless economics is accepted to be a positive science it loses its claim to be a science at all. It is therefore of some importance to examine the question.

Lights and shadows

Students of Marshall will remember the influence which the chemist's fine balance had on his precise bent of mind. The fine balance, in his eyes, was the sign of scientific accuracy, and he longed for some

similar sign in economics. He found it in the measuring rod of money, although, with his usual cautious and conscientious reserve, he himself pointed out several difficulties which stood in the way of making a physical instrument measure psychological motives. It was all meant as a sincere effort to place economics as near as possible among the exact sciences, or even among the sciences at all. For it is well known that the great developments of the natural sciences during the past sixty years were tending to restrict the name of 'science' to the *exact* sciences,—an epithet which evidently made a strong impression on Marshall, as appears from his own words: "The advantage which economics has over other branches of social science appears to arise from the fact that its special field of work gives larger opportunities for *exact* methods than any other branch."[1] And again: "The *raison d'être* of economics, as a separate science, is that it deals chiefly with that part of man's action which is most under the control of measurable motives, and which therefore lends itself better than any other to systematic reasoning and analysis."[2] It might be interesting to know whether other social sciences like Philosophy or Political Science, which are apparently deprived of these 'advantages' would acquiesce in the implication that they are not exact enough to be regarded as genuine sciences.

Passing this over, however, for the present, it cannot be denied that the attempt at an exact scientific treatment of economics has revealed an unexpected coherence in a field where at first sight it

[1] Principles, P. 15.
[2] Loc. cit. P. 38.

might have appeared hardly possible. It is particularly arresting to find that a science which has to deal with so elusive an object as the activities of free human beings, has been able apparently to apply the rule of law, not in the sense of any physical or moral coercion, but in the form of general uniformities, which a careful study of the powers of nature and of men's tendencies and aspirations has revealed in the very exercise of man's freedom. Men may continue to act as they please, yet, under certain conditions carefully considered, men are found to act uniformly, in the same groove so to say, even though with different intensities of purpose.

Thus in the economic field, where, at first glance, there seemed to be only divergency and confusion, economic science has brought out the persistence and universality of certain facts which undoubtedly point to the existence of general tendencies. Of these facts some are based on human nature itself and have led to the formulation of the general laws of supply and demand, of marginal utility and marginal costs, while others resulting from the bountifulness or niggardliness of nature, as Marshall expresses it, have brought to light important tendencies regarding the distribution of the factors of production between the various uses to which they can preferably be applied. Economics has thus approached that ideal of a realist science in which, as Prof. Pigou expresses it, facts are not simply brought together; they are compelled by thought to *speak*, and thus help to establish an organon of laws. Prof. Ely is therefore right when he says that economic science prizes these laws or uniformities as "the finest product of its research."[1]

[1] Outlines of Economics, P. 5.

This is the bright side of the picture; but every picture has its shadows, and without them our description would be incomplete. While praising the work of economists, Prof. Ely is careful to add: "Even those laws or uniformities which the science prizes as the finest product of its research are but statements of probabilities, declarations of what is most likely to occur for the mass of men in the long run under certain specified circumstances. . . Without entering the bog of discussion as to the nature of human freedom, we may safely assume, for practical purposes, that man is, within certain limits, a law unto himself. Nowhere do we find an element of variability so great and so seemingly ultimate as here."[1] And Prof. Marshall further darkens the shadows when he says: "The laws of economics are to be compared with the laws of the tides (calculations on which are only *probable*) rather than with the simple and exact law of gravitation. For the actions of men are so various and uncertain, that the best statement of tendencies which we can make in a science of human conduct, must needs be inexact and faulty. This might be urged as a reason against making any statements at all on the subject; but that would be almost to abandon life.... Since we *must* form to ourselves some notions of the tendencies of human action, our choice is between forming those notions carelessly and forming them carefully. The harder the task the greater the need for steady patient inquiry; for turning into account the experience that has been reaped by the more advanced physical sciences; and for framing as best we can well thought-

[1] Op. cit. P. 5, 7.

out estimates, or provisional laws, of the tendencies of human action." And Marshall concludes his rather gloomy picture with the words: "The term 'law' in economics means then nothing more than a general proposition or statement of tendencies, more or less certain, more or less definite."[1]

Positive science inadequate

Although, from these statements of responsible authorities, the picture has turned rather sombre, there are paintings of great artistic value in which the shadows prevail. We should not conclude, from Marshall's frank and conscientious exposition of the uncertain character of economic laws, that pure theoretical economics is not worth maintaining, nor even that its character of a positive science in the indicative mood, concerned with what tends to happen, should be expunged. As it is, this section of economics fulfils an important function: it adds to our lights and we can never have too much light to penetrate into the many recesses with which we are faced in so complex a field of human knowledge. But whilst positive economics is useful so far as it goes, it does not go far enough, it covers only a part of the field, and this is the reason why a growing need is felt for the recognition of a practical science of economics covering the positive and the normative aspects of it. This is an important statement which has to be substantiated.

Don't call up new entities where they are not required—is the broad rendering of one of the school-

[1] Principles, P. 32.

men's pithy sayings. To justify the existence of a normative science of economics, it has, therefore, to be shown that the positive science is not able to fulfil its function adequately. This happens to be the case whether we look at it from the angle of the positive science itself or from the broader aspect of economics as a social science.

That our positive science neither does realize, nor can realize adequately its own ideal of scientific accuracy, is plain from Marshall's own admission already quoted. His statement has all the greater value because it is Marshall himself who pleaded that the *raison d'être* of economics to be a separate science was the fact that its special field of work gave larger opportunities for *exact* methods; in other words, economics was to be a true science in the measure in which it applied exact methods. This appears again in the apologia already referred to in which Marshall hopes to improve the scientific aspect of economics by "turning into account the experience that has been reaped by the more advanced physical sciences." This desire, however, to imitate the greater accuracy of the physical sciences leads him to an unnecessary expression of inferiority complex. The two sciences do not stand on the same plane. Physical sciences are concerned with unchangeable laws, not with 'tendencies more or less certain, more or less definite;' they deal with stable, definite facts, not 'with the actions of men so various and uncertain' as Marshall himself calls them.

In a recent book which is not without merits,[1] Mr. T. W. Hutchison thinks he can avoid the difficulty by placing economics on the same plane as the

[1] The Significance and Basic Postulates of Economic Theory, P. 3.

natural sciences. He first lays down what he conceives the basic notion of 'science' to be. "The scientist," he says, "proceeds by means of the two inextricably interconnected activities of empirical investigation and logical analysis, the one, briefly, being concerned with the behaviour of facts, and the other with the language in which this is to be discussed.... If the finished propositions of a science are to have any empirical content, then the proposition must conceivably be capable of empirical testing or be reducible to such propositions by logical or mathematical deductions." There could be no objection to this definition as applied to the natural sciences, but the author gives it as the definition of science as such, and as applying to economics in particular, adding: "We decline to debate with those who do not hold with this criterion, as we would refuse to play chess with someone with whom we could not agree as to the rules." True to his word he next summarily dismisses Prof. Sombart's distinction between the method of Natural Science and the method of Moral Science, as "one of those interminable and inconclusive controversies which never trouble the practical scientist."[1]

The opinion of Hutchison is at any rate perfectly clear: he is "prepared to see his criterion applied rigidly and unwaveringly to the particular concepts and postulates of theoretical Economics." Everyone will agree that exact methods must be so applied in

[1] Op. cit. P. 15. Elsewhere the author states his view still more categorically: "Propositions of metaphysics, poetry, political or ethical persuasion, though of course they can be studied 'scientifically,' and 'scientific' propositions formulated about their occurrence, are not themselves 'scientific' since they cannot conceivably ever be brought to any kind of empirical test." (P. 54).

the case of the exact sciences; it is so obvious a fact that unless, in their case, absolute precision is obtained nothing is obtained. As Prof. Arthur Birnie aptly remarks: "The exception, we are in the habit of saying, proves the rule, but in 999 cases out of 1000 this statement is sheer nonsense. In science at any rate it always disproves it, because a scientific law assigns a particular cause to certain phenomena, and the same cause must always produce the same result. If it appears not to do so, then the law has been stated wrongly. A single exception is sufficient to destroy a scientific generalization, because the uniform action of nature admits of no irregularity."[1]

Conclusion and avowal

Now the question comes: can this apply 'rigidly and unwaveringly' to the concepts and postulates of economics? Marshall has given the answer when he recognized that "our economic laws are only the statement of tendencies more or less certain," and

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[1] Economics in Outline, P. 148. We are aware that Hutchison himself urges that the so-called "laws" of pure economics are really not such, so long as they are not confirmed by empirical data, and that they claim an "exactness" which is not their due. Our main difference with him, however, as we have already stated, is his assumption that economic science can be put on the same 'scientific' plane as the natural sciences. This may be broadly true in the case of some well-established 'uniformities,' but such well-established uniformities in *human conduct* are extremely rare or vague, and they form but a small part of the object of economics as a practical social science. Hutchison himself forestalls our objection when he writes: "In Germany the doctrine that the social and moral sciences have quite other criteria and methods than the natural sciences, . . . is dominant to the point of orthodoxy, and the criterion we have proposed here for economic scientists would almost certainly be called 'naturalistic' and inadequate for a social science." (Op. cit. P. 14). Not only in Germany, however, but wherever the difference between natural and moral sciences is properly grasped, a similar conclusion would be reached. It is no argument to say that Prof. Sombart's distinction between the natural science and the moral science methods is "one of those interminable and inconclusive controversies which never trouble the practical scientist."

that "the best statement of tendencies which we can make in a science of *human conduct* must needs be inexact and faulty."[1]

Marshall drew the only possible conclusion in the circumstances: "the harder the task the greater the need for steady patient inquiry and for framing as best we can well thought-out estimates, or provisional laws, of the tendencies of human action." But this conclusion is also an avowal. It clearly implies that despite its "larger opportunities for exact methods" economic science can only very remotely hope to approach the goal of scientific accuracy, owing to the elusive nature of its object—human conduct. This means in plain words that economics cannot be squeezed into the rigid frame of a pure theoretical science since it lacks the fundamental element—the scientific accuracy—on which alone such a science can be built up. Prof. Radhakamal Mukerjee has neatly brought out the flaw in Marshall's armour:

"Marshall, like Mill, in spite of his efforts to stress real human welfare, suffered from a dualism and could hardly permit his larger economic ideas to pierce through the hard incrustation of the older economics. Aspiring to make economics an exact science he made it centre round money which, in his words, is the one convenient means of measuring human motive on a large scale... In order to make his analysis of economic forces scientific, he sharpened the tools of price economics and gave the laws of value and distribution which he inherited from his predecessors a tentativeness, a flexibility and even elusiveness

[1] Principles, P. 32.

which has contributed materially to preserve the core of Ricardian economics against the attacks which are being launched from all sides."[1]

The same writer on the other hand shows that the social aspect has moved on since Marshall's early endeavours, and that economic theory can no longer stand alone. It has become "only one strand out of the many theories of institutions, of law, the state and the group and institutional life in general. It comes in intimate relations with social psychology [which accounts for] the cumulative changes in economic behaviour, and with ethics [which deals with] economic behaviour and institutions as tools for furthering man's indivisible or social ends. Economic theory will cease to remain separate from other types of social theories and from social direction and control, because the social reality is one and all theories and actions are inevitably intermixed."[2]

The craving for scientific accuracy, perfectly laudable in itself within the limits of its possible realization, seems to have been a standing attraction, and at times an excessive attraction, for economists engaged in the study of pure economics as a positive science. These economists, concerned only with what tends to be, and describing what the tendencies are or can possibly be, are led to use the various processes

[1] The Indian Journal of Economics, January, 1940.

[2] T. W. Hutchison has also realized this oneness of the social reality. "If," he writes, "economists are once and for all going to abandon often completely misconceived notions and standards of the 'exactness' and 'necessity' of their conclusions, and strive, rather, after more practical and 'realistic' applicability, they must be prepared to extend the range of their conclusions to include political and sociological factors, or to co-operate in formulating their conclusions with the specialists in these fields." (Op. cit. P. 164).

of reasoning, logical and mathematical, abstractions and assumptions, away from the facts of real life, in their endeavour to discover the general laws or tendencies of that science. The danger, on the other hand, is that too much abstract reasoning and aloofness from the concrete facts distort the vision and may turn much toil to little use. "As economists," says F. M. Durbin speaking from experience, "we feel satisfied that we have done our work when we have advanced a new theory that is logically consistent but to support which we have offered no single jot or tittle of evidence. The neglect of evidence," he adds, "indeed the contempt of evidence, felt by economists is simply extraordinary. What on earth is the good of a new theory for whose truth no evidence is offered? How are conflicts between contradictory theories ever to be resolved apart from an appeal to new facts? Growing complexity and growing conflict must be the result—and is the result—as the present state of monetary and trade-cycle theory demonstrates."[1]

Marshall seems to have foreseen the danger of excessive abstract methods for, though himself a keen mathematical mind, he deprecated the use of mathematical methods to prove and establish economic propositions, while encouraging the employment of mathematical symbols by way of illustrating or of summing up an economic statement, *the main concern of economics being*, he said, *with human beings.* It is equally significant that at a time when a new school of economic purists had given birth to the science of Econometry, Prof. J. M. Keynes, who is equally at home in mathematics and Economics, had some severe words

[1] The Economic Journal, June, 1938, P. 186-7.

in his *General Theory* about the present-day position of mathematical economics: "Too large a proportion of recent mathematical economics," he says, "are mere concoctions, as imprecise as the initial assumptions they rest on, which allow the author to lose sight of the complexities and interdependencies of the real world in a maze of pretentious and unhelpful symbols."[1]

Wrong implications

Wasted efforts are regrettable, but wrong implications are a more serious matter. Positive economics concerned only with describing what tends to be and not investigating what ought to be, may at times take up a line of thought probably quite logical and consistent in itself but away from real facts. This may have important consequences for, as Prof. J. M. Clark remarks, "humanity will derive answers to its practical problems from the work of economists, whether their work is intended for that purpose or not."[2] As an illustration we may just indicate the bare outline of the classical theory of the distribution of the national income as compared with its concrete realization. Economic theory has apparently solved the problem to its satisfaction, in its main lines at any rate. The theory tells us that the national income which is the result of the co-operation of the factors of production is distributed among these factors in proportion to their respective co-operation. This, we are informed, is secured by general laws or tendencies establishing

[1] The General Theory of Employment, P. 298.

[2] Preface to Social Economics, P. 5.

the share of each factor. There is a law of interest, a law of rent, a law of wages and a law of profits, each of which tends to establish the right share of each factor with the meticulous accuracy of marginal methods. The whole national income being thus disposed of, and each factor receiving its legitimate share, the problem of distribution as a whole, as presented by classical economics, seems to be fairly solved.

On the other hand a blunt fact stares us in the face. In the minds of an increasing number of thoughtful people, social justice should be the crux of every economic problem, and they hold that social justice has been thwarted. "The immense number of property-less wage-earners on the one hand, and the superabundant riches of the fortunate few on the other, is, they say, an unanswerable argument that the economic goods so abundantly produced in this age of industrialism are not rightly distributed and equitably shared among the various classes of men."[1]

Such is the problem: and all that is urged at present is that it would be as irrelevant to call it a purely economic problem as to hold that economics is not partly responsible for its solution. The great slump, now ten years old, from which we have not yet emerged, has been an eye-opener on many economic illusions and in particular on the uneconomic and unsocial distribution of income. Prof. J. M. Keynes has summed it up in a forceful passage in *The Economic Consequences of the Peace* the importance of which to our subject will be apparent.

[1] The Social Order, No. 60.

A frank statement

Speaking of the pre-war state of things he says:

"Europe was so organized socially and economically as to secure the maximum accumulation of capital. While there was some continuous improvement in the daily conditions of life of the mass of the population, Society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption. In fact, it was precisely the *inequality* of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished the age from all others. Herein lay in fact the main justification of the Capitalist System. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a regime intolerable. But like bees they saved and accumulated, not less to the advantage of the whole community because they themselves held narrower ends in prospect.

"The immense accumulations of fixed capital which, to the great benefit of mankind, were built up during the half century before the War, could never have come about in a Society where wealth was divided equitably. The railways of the world, which that age built as a monument to posterity, were, not less than the Pyramids of Egypt, the work of labour

which was not free to consume in immediate enjoyment the full equivalent of its efforts.

"Thus this remarkable system depended for its growth on a double bluff or deception. On the one hand the labouring classes accepted from ignorance or powerlessness, or were compelled, persuaded, or cajoled by custom, convention, authority, and the well-established order of Society, into accepting a situation in which they could call their own very little of the cake that they and Nature and the capitalists were co-operating to produce. And on the other hand the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice."[1]

If one thing is clear from this amazingly sincere statement, it is that, on the authority of one of its most prominent representatives, the Liberal School was hopelessly at variance with facts in its theory of distribution. Though this theory had been presented as the product of rigorous analysis and as highly scientific—and so from one point of view it undoubtedly is,—nevertheless there was behind it all a wrong teleological or ultimate purpose, the idea, namely, that the mainspring of economic progress necessarily requires the increase of the capital-fund, whence came the urge of so distributing the national income as to maintain the otherwise odious great inequality of wealth, even though the claims of the working class were thereby overlooked. The theory held that a large capital-fund was more important for economic progress than a

[1] The Economic Consequences of the Peace, P. 16.

better paid proletariate. That this tendency was still with us in the recent past is strikingly revealed by Dr. H. G. Moulton, president of the Brookings Institute, in his recent work *The Formation of Capital*, wherein he establishes statistically that the volume of funds actually absorbed in the industrial expansion of the United States in the 1920's remained nearly constant, reaching its peak in 1924, whilst the volume of funds accumulated by 'saving' and seeking investment, actually tripled during the same years, reaching its peak in 1929. Thus in that year barely a third of the funds for the accumulation of which Society had endured the excesses of inequality were able to find industrial use.

Prof. Keynes had written *The Economic Consequences of the Peace* before his economic conversion, but the gently cynical tone of the passage quoted above, seems to reveal that his mind was already preparing for such a change. The result of it appeared in his epoch-making book, *The General Theory of Employment, Interest and Money*, which winds up with the conclusion that "in contemporary conditions the growth of wealth, so far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it," thereby removing the main justification, so far adduced, for maintaining inequality of wealth. A second and equally fundamental conclusion of his work, having also a bearing on future inequalities, is his new outlook on the rate of interest. Instead of the old assumption that 'a moderately high rate of interest was thought necessary to provide a sufficient inducement to save,' Prof. Keynes shows that the extent of effective saving is

necessarily determined by the scale of investment and that the scale of investment is promoted by a *low* rate of interest.[1]

These new aspects of economic theory show that Prof. Keynes is anxious to link theory with facts, not that he has been influenced by socialist doctrines. He has considered, but found no merit in the socialist idea of the ownership of the instruments of production by the State. While recognizing the need of some control and guidance from the State, he still upholds the advantages of private initiative and thrift. "No obvious case," he says, "is made out for a system of State Socialism which would embrace most of the economic life of the community."[2] He is frankly social; he is not socialist.

The foregoing facts afford evidence of the inadequacy of positive economics to fulfil its assumed function of scientific accuracy, one result being that one of its prominent representatives had to secede from the fold in order to reach conclusions which extended beyond the purview of the classical horizon. Prof. Keynes may well have felt cramped in the indicative mood, and, perhaps unawares, has come appreciably nearer to the imperative mood. The fact that in the present War economy, the Bank of England, under the influence of his enlightened views, has successfully restored the pre-war 2% rate, is as near a proof as can be that some of his conclusions have reached the stage approaching a morally categorical imperative in the eyes of those on whom rests the

[1] Op. cit. P. 373, 375.
[2] Op. cit. P. 378.

tremendous responsibility of guiding the financial destinies of the Empire.

Belated rehabilitation

In the light of these observations and returning to the classical theory of distribution, we may emphasize one point. Even without realising the full extent of interested influences in the mechanism of the distribution of the national income, many thoughtful people had realized that labour was not treated fairly, and claimed a re-adaptation of the system on grounds of equity or of social justice. This was and still is the plea urged by Social Economics for recognition of the claim of economics to be regarded as a practical normative science, whereby the methods of realizing economic welfare may go hand in hand with the requirements of social justice. The way, moreover, has already been opened in this direction. The following is a brief survey of some developments that have occurred, on more normative lines, in the treatment of interest and of wages.

The old Canonists' doctrine of interest and its condemnation of usury has frequently attracted the attention of modern economists, but usually to be summarily dismissed as an obsolete and untenable explanation of the problem. Thus while Prof. Cassel,[1] admits some rational grounds, in their time, for the interest policy of the Canonists, he concludes: "we must not push our rehabilitation of the Canonists too far," and he goes on accusing them of "defending their case by two methods which have always proved fatal to the development of strong and clear reasoning,

[1] Nature and Necessity of Interest, P. 3.

viz. by Sophistry, the worst degeneration of human thought, and by Appeal to Authority, the suppression of thought."

Similarly Prof. Irving Fisher evidently tickled by what he calls "an objection, formerly common, that interest is Unnatural," takes to task Aristotle, the Mosaic Law, the Romans, the Old and New Testaments, without forgetting 'the Church Fathers through the Middle Ages,' for showing a 'hostile attitude' and 'waging a ceaseless but fruitless war against interest-taking.' Of course St. Thomas is explicitly brought in and duly pilloried, but no reader could possibly get a glimmering of sense of his doctrine as stated by Prof. Fisher. It seems clear that the Professor had never taken the trouble to read the three or four pages of the *Summa* where St. Thomas succinctly expounds the doctrine. Fisher has avowedly borrowed from Böhm-Bawerk. So one writer has gone on borrowing from another, each making some distortion, until the version of the Canonist doctrine in the current economic text-books is something utterly unintelligible. There was the less excuse for rejecting the Canonist doctrine as obsolete, since modern economists themselves have never succeeded in constructing a satisfactory theory of interest. Prof. Fisher himself admits as much: "The problem of interest," he writes, "had engaged the attention of writers for two thousand years, and of economists since economics began. And yet, with the exception of what has been accomplished by Rae, Böhm-Bawerk, Landry and some others, very little progress has been made toward a satisfactory solution. Even these writers can scarcely claim to have established a definitive theory of interest.

While the value of their work is great, it is chiefly negative."[1]

It needed the authority of Prof. J. M. Keynes to sweep aside these empty effusions and to restore the Canonist doctrine to its right place. He had already raised the issue in his *Treatise on Money*, and this had given rise, in the *Economic Journal*,[2] to an interesting symposium in which Prof. Keynes took a share along with other economists. He has subsequently dealt more fully with the subject in *The General Theory* where he says:

"I was brought up to believe that the attitude of the Medieval Church to the rate of interest was inherently absurd, and that the subtle discussions aimed at distinguishing the return on money-loans from the return to active investment, were merely jesuitical attempts to find a practical escape from a foolish theory. But I now read these discussions as an honest intellectual effort to keep separate what the classical theory has inextricably confused together, namely the rate of interest and the marginal efficiency of capital. For it now seems clear that the disquisitions of schoolmen were directed towards the elucidation of a formula which should allow the schedule of the marginal efficiency of capital to be high, whilst using rule and custom and the moral law to keep down the rate of interest.... (Thus) for centuries enlightened opinion held for certain and obvious a doctrine which the classical school has repudiated as childish but which deserves rehabilitation and honour."[3]

[1] The Rate of Interest, P. 4.

[2] Dec. 1931. March and June, 1932.

[3] Op. cit. P. 351.

A more complete vindication of the medieval doctrine could hardly be desired. Its importance for social economics is emphasized when Prof. Keynes agrees with the Canonists' view that "the rate of interest is not self-adjusting at a level best suited to the *social* advantage but constantly tends to rise too high, so that a wise Government is concerned to curb it by statute and custom and even by invoking the sanctions of the moral law."

The nature of interest

The motive which led Prof. Keynes to change his views is of special importance because, apart from rehabilitating the Canonist doctrine, it has brought out the notion, which to many must have been a surprise, that interest which all text-books define as the price paid for the use of capital, is, strictly speaking, nothing of the sort. It is only the price paid for the use of money, a price which Canonists called unnatural because money is barren. Money is not capital and the moment it becomes capital it ceases to be money. To call money potential capital is misleading. A bright student may be a potential lecturer, but so long as he is a student he is not a lecturer, and, the moment he becomes a lecturer, he ceases to be a student in the usual sense of the word. The rate of interest on money has no relation to the marginal efficiency of capital since money is not capital. Only profits or dividends, (when there are any) express the marginal efficiency of capital. Shareholders have no right to a fixed return; they get only what the efficiency of their capital can afford. They receive

a dividend in proportion to the output, and, in bad years, when the marginal efficiency of capital drops, their dividends may dwindle to zero, while the bondholders continue to receive interest just as the labourers continue to receive wages, with this difference, however, that interest is quasi-perennial, while the wages cover only the labour of the year or of the month. Both are reckoned as costs, not as surplus or profit.

If the lending of money for industrial and commercial purposes—to say nothing of the vast subject of unproductive lending—represented roughly the same amount in practice as investment of money in real capital, the distinction between the two might only be of academic interest. But we have already seen that it is not so, and thus the difference between money loans expecting interest, and capital investments looking for profit is of profound social importance. The reason is that the saving of an individual is not always accompanied by an increment of new investment leading to an increment of wealth. Failing such an increment of wealth, the saving has to be met by, and will cause a loss to, some other productive investment. And when, as Prof. Keynes rightly observes, an act of saving, however unintentionally, is a loss to someone else, it is of an *anti-social* tendency, and the subsequent payment of interest to the saver is a burden which, if it accumulates with time, may become insupportable.[1]

Whatever may have been the cause or causes of the catastrophic fall of prices in 1929 that ushered in the world crisis, the consequences would not have been

[1] The Economic Journal, 1932, P. 136.

so disastrous, if there had been a corresponding decline in costs. The trouble arose because costs were rigid and the rigidity of costs was chiefly due to interest. The amount of interest a producer has to pay is determined by contract, often for a long term of years. No matter what his earnings are, his interest obligations remain the same, since interest is not a yield of real capital but a charge for the loan of money. The difficulty would not arise if industry and other enterprises were financed only by invested capital instead of by loans, that is, if all capital holdings were in the form of shares, preference or ordinary, and not in the form of bonds and debentures; for if capital earnings fail there is no call to pay the shareholder, whilst the call for the payment of interest continues.

"Economists are now coming to see the logic and the practical wisdom of the Canonists whose teaching was explained by the late Professor Ashley in Book II of his *Economic History*. The Canonists made no difficulty about profit on capital. A man could be a shareholder, a sleeping partner in an enterprise and take his agreed share of whatever profits resulted. But, as Ashley pointed out, the Canonists of the fifteenth century and earlier taught that *to bargain for a fixed reward, or dividend upon the capital invested, whatever the fortunes of the business might be, made the contract usurious.* Quoting Ashley, I must introduce the word usurious with its ethical connotation, but the argument in this article is confined to the economic mischief due to interest, and due not to an excess, but to the nature of interest, a fixed charge on producers irrespective of the value of real capital and of their products. At long last it is dawning on

economists what St. Thomas meant when he said that money is a thing fungible, a good that is consumed in being used, i.e., gone when it is spent. The claim to take, not a share of the current yield of capital goods in use, but a charge for money spent years and even centuries ago, has now brought the economic life of the world to a state that is technically called 'Standstill'!"[1]

Enough has been said in this digression on the nature of interest to bring home the importance of the social point of view in the study of economic problems. It serves to illustrate the social background on which economic theory must rest and the recognition of which in the all important problem of interest is a particularly hopeful sign of the times. Reserving the study of the problem of wages for another lecture, it is enough to state here that a similar tendency is happily evinced in this grave question as well. Modern economists have come to realize that the wage problem is a concrete question which should be settled less by theoretical considerations than by concrete methods.

"It cannot be denied," said Lynda Grier in his Presidential Address to the British Association, "that the formulation of a theory of wages, easy of comprehension, would give satisfaction to economists as well as to others who desire to use such a theory in practical affairs. Early economists essayed the task but to no lasting purpose. The Iron Law of Wages, the Wage Fund theory, with other theories of more or less note, have been placed on the scrap-heap of

[1] H. Sommerville: Economists and Canonists. The Month, July, 1932.

venerable antiquities whence they are raked from time to time by those who delight in recognizing that it is almost as rare, perhaps almost as difficult, to evolve an economic theory which contains no truth, as to evolve one which contains the whole truth. Modern economists for the most part content themselves by explaining how wages are determined under given conditions and commit themselves to no theory."[1]

It is precisely in the determination of wages under such concrete conditions that the guidance of a normative science would be of the greatest value in order to bring about the long-sought-for harmony between the principles of economy and those of equity, a subject on which we shall now endeavour to throw some light.

[1] The Economic Journal, Dec. 1925.

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ECONOMIC WELFARE AND EQUITY

SOCIAL economics in agreement with the Marshallite tradition, focusses its attention on those human activities which are most closely connected with the pursuit and attainment of economic welfare. Economic welfare (which, Prof. Pigou says, is that part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money), has sometimes been divided into two parts, one relating to *production* and the other to *distribution*. The first, largely controlled by the principles of positive economics, includes all those propositions for increasing social welfare which relate to the increase in aggregate production: all questions concerning the organisation of employment, the equalisation of social net products, and the tendency of prices to equalize marginal costs, fall under this heading. Here the theoretical economist feels on sure ground; he regards the scientific status of his prescriptions as unquestionable, provided that the basic postulate of economics, namely, that each individual prefers a greater satisfaction to a lesser one, is granted. But in the part concerning *distribution*, positive economics should not be concerned with 'prescription' because it is not possible, on purely economic grounds, to decide what particular form of

income-distribution would lead to a greater social welfare.[1]

Inequality of incomes

Such at any rate is the view held by those economists who maintain the positive character of economics and reject the claims of a normative science. We have seen, however, that not even classical economists have been able to keep rigidly to this distinction. "Ricardo," says Prof. Macfie, "is probably as near the pure milk of the positive gospel as is desirable—though even here normative statements will be found. And Prof. Pigou's *Economics of Welfare* is a good example of the opposite pole."[2] The discussion which has been going on concerning the problem of the inequality of incomes, has afforded an opportunity for the expression of such opposite views.

Starting from the assumption that income is the means whereby economic welfare is obtained, Hugh Dalton, and other economists with him, considered the possibility of increasing total economic welfare on the 'distribution' side, by reducing the present inequality of incomes. "Though," he says, "absolute equality of incomes is not desirable, yet a large reduction in the inequality found in modern communities would increase economic welfare, provided it does not cause a permanent reduction of the total income to be divided." He further agrees with, and quotes, Marshall's well-known statement that "a slight and temporary check to the accumulation of material

[1] N. Kaldor. The Economic Journal, 1939, P. 551.

[2] An Essay on Economy and Value, P. 25.

wealth need not necessarily be an evil, even from a purely economic point of view, if, being made quietly and without disturbance, it provided better opportunities for the great mass of the people, increased their efficiency, and developed in them such habits of self-respect as to result in the growth of a much more efficient race of producers in the next generation. For then it might do more in the long run to promote the growth of even material wealth than great additions to our stock of factories and steam-engines."[1]

Even so cautiously guarded a statement, however, failed to win the approval of Prof. Robbins. Championing the cause of positive economics, he is up against what he regards as an unjustifiable normative conclusion drawn from the law of diminishing marginal utility, although he acknowledges that such propositions "have received the support of very high authority."[2]

"The argument," he says, "is familiar: the law of diminishing marginal utility implies that the more one has of anything, the less one values additional units thereof. Therefore, it is said, the more real income one has, the less one values additional units of income. Therefore the marginal utility of a rich man's income is less than the marginal utility of a poor man's income. Therefore, if transfers are made, and these transfers do not appreciably affect production, total utility will be increased. Therefore such transfers are economically justified."[3]

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[1] The Inequality of Incomes, P. 12.

[2] The Nature and Significance of Economic Science, P. 120.

[3] Op. cit. P. 121.

An economic problem

It should be noted in fairness to Prof. Robbins that his argument is directed only against the last two words "economically justified." He has no quarrel with those who may urge such transfers on political, social or religious grounds; he merely, but emphatically, maintains that they are *not* justified economically. On the other hand it is this negation which seems questionable. While taking up this negative attitude Prof. Robbins is aware that he runs counter to a very generally accepted opinion. "It is safe to say," he writes, "that the great majority of English economists accept these propositions as axiomatic. Yet with great diffidence I venture to suggest that they are in fact entirely unwarranted by any doctrine of scientific economics." And not alone by scientific economics it would seem, for, adds Prof. Robbins with a touch of injured scientific integrity, "the proposition we are examining begs the great metaphysical question of the scientific comparability of different individual experiences,"[1] his reason ultimately being that "there is no means of testing the magnitude of A's satisfaction as compared with B's."[2] Now, it is perfectly true to say that individual subjective experiences cannot be compared with each other, each individual having his own standards of appreciation and his grades of satisfaction which are themselves variable with time and circumstances. But the real question is: why should economic welfare

[1] Op. cit. P. 121.

[2] Op. cit. P. 124.

be reckoned in terms of pleasure and satisfaction? And to this question Prof. Robbins gives unawares a very apt explanation, when, to strengthen his point of view, he says: "It is simply the accidental deposit of the historical association of English Economics with Utilitarianism; and both the utilitarian postulates and analytical Economics will be the better and the more convincing for their separation."[1] There is a core of sound sense in this observation.

It was the merit of Jevons and the Austrian School to have emphasized the connection of economics with psychology and the insufficiency of Ricardo's cost theory of value. But their own theories were involved in the Utilitarian delusion that human desires and aversions, pleasure and pain, wellbeing and illfaring can be accurately measured and translated into terms of money. And though Marshall cannot be classed as belonging to, or holding the views of, the Austrian School, his frequent employment of the term 'utility' instead of 'value' is liable to mislead owing to its utilitarian origin as found in Jevons' "final utility," and as having a meaning which fluctuates between objective usefulness or true benefit on one side, and on the other, subjective experiences, pleasures or satisfactions. This explains, but does not justify, the tradition which has set in of reckoning economic welfare in terms of pleasure and satisfaction.

If, on the other hand, it is admitted that income is the means whereby economic welfare is normally secured, and if this economic welfare is taken to express not subjective pleasure but the *objective* fact

[1] Op. cit. P. 125.

of making one economically "well-off" or "better-off,"—whether or not this is accompanied by a subjective feeling of satisfaction,[1]—it seems hardly possible to deny that transferences of income from the rich to the poor must normally, and usually would, increase the economic welfare of the poor more than it would decrease that of the rich, or, in other words, that it would increase total objective welfare, other things of course remaining the same. This argument does not rest on, indeed it rejects, Marshall's principle that "a shilling is the measure of less *pleasure* to a rich man than to a poor one:"[2] but we are justified in saying that the expenditure of the poorer class is more generally employed, or is normally expected to be employed, in satisfying more urgent needs than the expenditure of the rich; and consequently small additions to, or subtractions from, their income are a greater objective benefit or injury than the same sums added to or subtracted from the incomes of the richer classes.

We find a confirmation of this view in *Economics of Welfare*, where Prof. Pigou, examining the connection between changes in the size of the national dividend and changes in economic welfare, concludes:

"If the *per capita* income of this country were, say, twenty times what it actually is, it may well

[1] Speaking of the national minimum standard of real income, Prof. Pigou says in *Economics of Welfare*: "It must be conceived, not as a subjective minimum of satisfaction, but as an objective minimum of conditions. The conditions, too, must be conditions, not in respect of one aspect of life only, but in general. Thus the minimum includes some defined quantity and quality of house accommodation, of medical care, of education, of food, of leisure, of the apparatus of sanitary convenience, and safety where work is carried on, and so on." (P. 757).

[2] Principles, P. 80.

be that a further increase in it would not ultimately—the population being supposed constant—add anything at all to economic welfare. As things are, however, in view of the low level of average real income, we may, I think, safely conclude that an increase in the dividend—apart from the fantastic hypothesis that the whole increase goes to persons already very rich—would carry with it ultimately, and not merely immediately, an increase in economic welfare. The goal of economic betterment is not a mere illusion."[1] And again, further on, he adds: "It is evident that any transference of income from a relatively rich man to a relatively poor man of similar temperament, since it enables more intense wants to be satisfied at the expense of less intense wants, must increase the aggregate sum of satisfaction. The old "law of diminishing utility" leads securely to this proposition."[2]

On the other hand Prof. Robbins rejects this solution of the problem as unscientific. "It can," he says, "be justified on grounds of general convenience. Or it can be justified by appeal to ultimate standards of value. But it cannot be justified by appeal to any kind of positive science."[3]

There is some sarcasm as well as unanswerable logic in this last argument against those who, like Prof. Pigou, uphold a welfare economy and yet continue to regard economics as a positive science in the indicative mood, not a normative science in the imperative mood. To them indeed Prof. Robbins is

[1] Economics of Welfare, P. 86.

[2] Op. cit. P. 91.

[3] Op. cit. P. 125.

entitled to say: "There is nothing within the body of positive economic generalisations which affords any means of deciding this question. Propositions involving 'ought' are on an entirely different plane from propositions involving 'is.'[1]

We thus seem to have reached a complete deadlock. Prof. Robbins, on the one hand, anxious to maintain unimpaired the claim of economics to be a positive science and nothing else, throws overboard a number of practical problems such as that of the inequality of incomes, on the ground that such problems lie beyond the reach of economic laws, they involve an element of conventional valuation, and, being thus normative in character, have no place in pure science.[2] Prof. Pigou, on the other hand, less impressed by the advantage of strictly maintaining the positive character of economics than by the necessity of upholding the "fruit-bearing" character of the science, urges that there is a legitimate economic sequence to the law of diminishing marginal utility and that it applies to the transferences of income from the rich to the poor. He even implies that unless this conclusion is admitted, economic *betterment* becomes an empty word devoid of any objective reality,—a mere illusion. This is a particularly forceful argument against an exclusively positive science and in favour of an economic science which is also normative; for, 'betterment' necessarily implies some norm of value or standard of comparison, and is expressed in propositions involving 'ought.'

[1] Op. cit. P. 126, 133.

[2] Op. cit. P. 120, 135.

A middle course

The discussion of the 'Welfare Economics' problem has been recently taken up again by Mr. Kaldor[1], supported by Prof. J. R. Hicks[2], both of them, seemingly, with a view to discover a middle course between the 'Welfare Economics' of Prof. Pigou and the 'Positive Economics' of Prof. Robbins.

The new theory advanced by Prof. Hicks postulates an endeavour towards what he calls an *optimum* reorganisation of the economic system in which every individual will be "as well off as he can be made," with the further condition that "no reorganisation shall make any individual worse off;" a system which, under conditions of perfect competition, is based on the realisation of definite *marginal*, *stability* and *total* conditions comparable to the conditions of equilibrium in positive economics; a system, moreover, which not only takes into account the objective quantities of goods produced and exchanged, together with the prices at which they are exchanged,—this is the *positive* aspect,—but considers also their *purposive* character, how far, that is to say, they achieve the ends for which they are designed, or the efficiency of the economic system in adjusting means to ends,—this is its adaptation to *welfare economics*. Finally Prof. Hicks makes the further claim that this system "fixes attention upon the question of compensation" in the sense that the proposed reforms will allow of compensation to balance the loss, when it occurs, and will still show a net advantage.

[1] The Economic Journal, 1939, P. 549.
[2] Loc. cit. P. 696.

This scheme, it is clear, is highly theoretical, and one which can be realized only if special conditions are fulfilled. To state, for instance, that the optimum position is "attained under conditions of perfect *laisser faire* when competition is *perfect* in all industries," (and Prof. Hicks further admits that, even under universal perfect competition, other reasons may prevent an optimum position being attained), is sufficient to reveal the purely theoretical aspect of the scheme, and it may even leave the reader wondering how such a scheme can be made to apply to real life.[1] One is reminded of Durbin's observation that "as economists, we feel satisfied that we have done our work when we have advanced a new theory that is logically consistent but to support which we have offered no single jot or tittle of evidence."[2] Moreover this is not a scheme for transfers of income but one of improved methods of production to increase aggregate wealth, as a result of which "some individuals would be better off but none would be worse off."

It seems clear that the main difference between this proposal of Prof. Hicks and Prof. Pigou's method to increase total welfare, is that the former deals with the question as being primarily a problem of more efficient production and the latter as primarily a problem of better distribution. Prof. Pigou starts from

[1] Prof. Hicks himself says: "Every simple economic reform inflicts a loss upon some people; the reforms we have studied are marked out by the characteristic that they will allow of compensation to balance that loss, and they will show a real advantage. Yet when such reforms have been carried through in historical fact, the advance has usually been made amid the clash of opposing interests, so that compensation has not been given, and economic progress has accumulated a roll of victims, sufficient to give all sound policy a bad name." The 'soundness' of a theory which *in practice* leads to such results, might well be questioned.

[2] The Economic Journal, 1938, P. 186.

concrete facts. He conceives welfare economics in terms of existing conditions, in which, it is universally recognised, the inequality of incomes is excessive, and he argues that a reduction of larger incomes in favour of those that are inadequate (other things re-maining the same) would increase total economic welfare. In other words he is concerned with mending the present very un-ideal world. Prof. Hicks, on the contrary, looks ahead to building up an ideal economic world in which, with more efficient methods of production, the aggregate wealth will increase and so also the aggregate welfare since "every individual is to be as well off as he can be made" and "no individual shall be made worse off." The method is legitimate, even though the contrast between this attractive theory and the difficulty of its realisation may leave many a reader unconvinced.

But while they differ in outlook,[1] both the 'positive' and the 'welfare' methods co-operate to the same end, the increase of total welfare, and no welfare economist, least of all Prof. Pigou, could be suspected of rejecting the methods of positive economics which they hold as equally valuable. Prof. Hicks fears that the economist who considers measures of

[1] This difference is manifested in another form: the increase of aggregate economic welfare is often secured without marked increase of aggregate wealth, merely by a better distribution of the existing wealth, so that the total objective welfare of a poorer country with a better distribution of income may proportionately exceed that of a richer country. Finland is a case in point.

"In 1901 there were 100,000 landowners, whereas in 1934 there were 570,000 cultivated holdings, of which 300,000 had a ploughed area of not less than three-fifths of an acre. Large estates and large farms are rare. They do not cover more than 6·1 per cent of the total field area of Finland. Two fifths of all land, mostly forest, is owned by the State, but of the arable land 92% is owned by private individuals; 60 per cent of the population depend on agriculture for a living.

"Wages and salaries for manual and mental work are low in comparison to those paid in Britain or in the United States. Again, that is no

redistribution in isolation from the question of compensation "will pay no more than lip-service to its productive efficiency, and probably reject it in practice. From this it is only a step to the state of mind which judges measures solely by reference to their distributive justice, without reference to their bearing on efficiency." Granted that their bearing on efficiency should not be neglected, it remains true that their effects on distributive justice should *also* be taken into account. Prof. Hicks has come some way in this direction by "demonstrating the right of Welfare Economics to be considered as an integral part of economic theory, even as the twin brother of Positive Economics." This, however, means that Prof. Hicks recognizes the *purposive* character of economics (against Prof. Robbins' rejection of economic ends), but not yet the normative and therefore ethical character involved in an adequate view of welfare economics.

This further aspect is brought out by Prof. A.L. Macfie, who remarks that where there is a purpose there must be a norm, and that in the case of economics the norm involves an ethical character: "Economic truth", he says, "is certainly purposive through and through. We are always consciously aiming at something when we economise: whether it be at profit or at

index of the standard of living, because in Finland the prices of essential foods and articles of utility are lower than in any other European country. Moreover, there is little outward variation in the standard of living amongst the different social classes. Artisans, business employees, and the lower ranks of the Civil Service live in outwardly similar circumstances. Class distinctions are further reduced by the children of all classes meeting in secondary schools and at the universities.

"There are no slums in Finland. Unskilled labourers are poor, but they possess the necessities of life, are decently housed, and self-respect is unimpaired. Even during the world depression (1931-32) unemployment did not affect more than 3% of the population, or 6% of the workmen in all trades."

"Lapland Journey," by Dr. Halliday Sutherland.

economising itself. For so far as we aim at using scarce means to the best advantage, comparison is clearly the essence of the process. And comparison without a standard of reference is an absurdity". Moreover, "economy is a norm and imposes an obligation partly because it is one aspect or channel of the moral norm. We are morally obliged to reconcile our selfish economic interests to those of the community."[1]

As regards the validity of transfers of income on the basis of objective needs and not of subjective satisfactions, a parallel case is found in the practice of all modern governments in fixing an income limit below which income tax does not apply. These governments obviously take the view that the marginal value, for objective needs, of the lower non-taxed incomes, is greater than that of higher taxable incomes, so that taxing them would impose an unequal sacrifice. This principle holds good whether we speak of sacrifice imposed by subtractions from, or of benefit conferred by additions to, the smaller incomes. It is both economically sound and desirable, and therefore justified as a method of welfare economics.

The main problem

But even if we accept Prof. Pigou's interpretation of the reality of an increase of total economic welfare as the result of transferences of income from the rich to the poor, the problem is not yet solved: we should know moreover how much or up to what point such transfers are desirable. The transfers, to

[1] An Essay on Economy and Value, P. 20, 28.

be justified, should not occasion a permanent decrease of the total income of the community, nor should they lead to absolute equality of incomes which is not desirable since, being given men's different capacities, it could not be maintained. "Up to a certain point," says H. Dalton, "the more equal the distribution, the further a given amount is likely to go in satisfying economic needs, and hence in increasing economic welfare."[1] But where is this point? We must say that the answers to this question are not very satisfactory. "The ideal distribution", says H. Dalton, "would be a distribution according to the capacity of individuals, or families, to make a good use of income." But this ideal is questionable and Dalton admits that "it is very far from realisation in the actual world: for, obviously, it is only through opportunities of spending income that people can learn to spend income well." And without any further explanation he concludes: "It is clear, however, without labouring the matter further, that a large reduction in the existing inequality could be made, which would result in bringing us considerably nearer to the ideal."[2]

This superficial solution is all the more questionable because, unsatisfactory as it is, it is given preference over another solution based on grounds of justice; the latter being summarily rejected because canons of justice are said to be inconsistent. We shall return to the question of justice; but it is worthwhile observing here that Dalton's own solution tends to be self-contradictory, since his assumption that total economic

[1] The Inequality of Incomes, P. 10.
[2] Loc. cit. P. 11.

welfare is to increase in proportion to the reduction of the existing inequalities of income, would lead straight to the enforcement of equal incomes as the optimum limit, a proposal which Dalton himself rejects.

But the main problem is not there. The total optimum amount of economic welfare must depend primarily not on a negative process of curtailing certain excessive incomes, but on positive methods whereby incomes are distributed equitably between the agents of production.

The traditional theory of economics recognizes this general truth when it lays down laws for the distribution of the national income between the factors which have co-operated in its production, into rent, interest, profits and wages. If the laws of distribution worked equitably, each factor should receive what it deserves and there would be no further need, on economic grounds, to appeal to a redistribution of incomes. In fact, however, it is not so. We have already seen that the working of the law of interest was unsatisfactory both on economic and on social grounds. We shall now examine the law of wages, or, rather, one particular aspect of fundamental importance in the determination of wages.

One aspect of wages

Economists have already told us that they put little faith in the general theories of wages which have been propounded in the past and which have now been placed on the scrap-heap of venerable antiquities. They now, for the most part, content themselves with explaining how wages are determined

under given conditions, without committing themselves to any theory. This is an undoubted improvement. Nevertheless one theory or principle still largely subsists, namely, that wages are a price and that, like all prices, they are ultimately determined by the laws of supply and demand. Have these venerable laws also to go to the scrap-heap?

In answer to this question, we shall indicate some facts which may help to discover which way the answer lies. Economic Liberalism dies hard, and, though nowadays largely discredited, it still holds some sway in the practical settlement of wages. Even to-day there are employers who think in terms of the "inexorable laws" of supply and demand, and who consequently hold that the moral law has nothing to say in the matter and that even the civil law should have nothing to say either. They are satisfied that those wages are right which have been 'freely' agreed upon by the interested parties. We know, however, that the civil law has not always accepted these views, and there are few countries to-day in which some regulations have not been passed to improve the conditions of the labourers, particularly by the introduction of minima wages.[1]

But as we are here mainly concerned with principles, we must make it clear that there are no such things as inexorable laws of supply and demand. Economic laws are not constant, uniform, necessary modes of action, like the laws of physics and chemistry, but only statements of human tendencies in certain

[1] The Minimum Wage: an International Survey. International Labour Office, Geneva, 1939.

definite conditions. They are definitions, not of what men *must* do, but of what they are *inclined* to do in the exercise of their free will when confronted with these conditions. This much is clear from the fact that, whereas the laws of physics and chemistry operate with inexorable sameness, wholly uninfluenced by the moral and intellectual views of man, economic laws operate quite differently according as, for example, labour is or is not efficiently organised to enforce its claims, or according as both capital and labour recognize or do not recognize the control of the natural law in their mutual relations. Similarly, a civil law that should run counter to a physical law would be absolutely ineffective; but a reasonable minimum wage law, with teeth in it, can effectively modify the working of the law of supply and demand. The mountain torrent which, left uncontrolled, would spread ruin and desolation in the valley, furnishes, when harnessed by the engineer, the power that illumines a whole region and drives the wheels of industry.

As for the appeal to the 'freedom' of contract as justifying any wage-scale, it is oftener than not equally fallacious. That 'freedom' in many cases is more apparent than real. A judge of one of the State courts of America wrote recently in a dissenting note: "a husband and father who is threatened with idleness unless he signs an agreement not to join a union, has about as much 'freedom of contract' as has a shipwrecked sailor who is bartering for a seat in the only life-boat in sight." Too often dire oppression has been justified under this smug appeal to the freedom of contract.

Principle of equity

But, and this is of far greater importance, freedom of contract is only one element of a just onerous contract, which must meet the requirements of objective justice in the equality it establishes between what is given and received. When employer and employee enter into a wage-contract they do so for their mutual advantage. The agreement, therefore, should not be more burdensome for one party than for the other, and, consequently, in the exchange it establishes, it must observe equality of thing with thing. And since the worth of an object is practically measured by the price paid for it, if either the worth exceed the price, or the price exceed the worth, justice is upset and the transaction is unjust.

What is the worth of human labour? It cannot be said to be measured by the value of the commodity it produces, for the price of a commodity having normally to cover the costs of production is a result, not a determinant of the value of the factors that go to produce it. This is particularly true of 'labour' because, as a *human* factor, it is not 'like other commodities.' Man is not a mere chattel to be considered only as so much muscle and physical power. He is a person, an end in himself, with rights and responsibilities of his own as against the claims of society upon him. This was obviously what the treaty of Versailles had in view when, speaking in the name of 'social justice' and of 'international peace,' it declared as the first provision of labour legislation "that labour should not be regarded merely as a commodity

or article of commerce."[1] Whatever else the price of a finished article has to cover, it must normally include the minimum worth of the human labour incorporated in it. This is not a theory of wages but only one fundamental aspect of it, indicating the minimum below which wages should not go.

Since it is the objective worth of labour which must be taken as the measuring rod to fix its minimum price, we have first to examine how the worth of human labour can be determined. Human labour exists in a variety of forms and efficiencies due largely to previous expenses of training. It will help to focus our ideas if we restrict our remarks to the labour of the adult unskilled wage-earner of our modern factories for which no special training expenses are required. He is normally a wholetime worker who, in consequence of a contract between himself and his employer, gives his work for a fixed remuneration. While granting that workmen and employer make what are called free agreements as to wages, nevertheless there underlies a dictate of natural justice, more imperious and more ancient than any bargain between man and man, that the remuneration should be sufficient to maintain the wage earner on a reasonable standard of existence.

This consideration serves to bring out the *natural* purpose of labour and, through it, it is possible to determine its objective worth. The preservation of life is a bounden duty for every rational being, and from this it follows that each man must procure what is required in order to maintain that life; and the

[1] Part XIII, Section I, Preamb. Art. 427.

poor man can procure it in no other way than by his work.[1] Since the work is thus undertaken primarily to preserve his life, and since, obviously, nature, or better its Creator, has normally made man's powers equal to the task laid on him, it follows that man's labour is normally worth what is needed to support his life in a manner befitting a rational being. Consequently if a workman wholly employs his energies in the interests of another, the very least or the minimum that is due to him in justice is the maintenance of a reasonable human existence. It is therefore this 'human point of view' of labour which gives the only true measure of its minimum worth. This worth is determined by the *natural* and primary purpose of labour which is the support of human life in a manner befitting a rational being.

A family wage

From this explanation it will appear that this basic wage is due to the workman not because he *needs* it but because he *earns* it. On the other hand

[1] "A man's labour necessarily bears two notes or characters. First of all, it is *personal*, in as much as the force which acts is bound with the personality and is the exclusive property of him who acts, and, further, was given to him for his advantage. Secondly, man's labour is *necessary*; for without the result of labour man cannot live; and self-preservation is a law of nature, which it is wrong to disobey. Now, were we to consider labour merely in so far as it is *personal*, doubtless it would be within the workman's right to accept any rate of wages whatsoever; for in the same way as he is free to work or not, so is he free to accept a small wage or even none at all. But our conclusion must be very different if, together with the personal element in a man's work, we consider the fact that work is also necessary for him to live; these two aspects of his work are separable in thought, but not in reality. The preservation of life is the bounden duty of one and all, and to be wanting in it is a crime. It necessarily follows that each one has a natural right to procure what is required in order to live; and the poor can procure that in no other way than by what they earn through their work."

(Leo XIII: Rerum Novarum, or, 'the Workers' Charter,' P. 39.)

it is due only to the *normal* adult: a weakling unable to maintain a family could not claim this natural minimum wage. It must further be understood that if, owing to adverse economic conditions, a firm is not in a position to meet this basic wage, the employer is not bound to pay it. It is regarded as the minimum pay which the employer is, in justice, bound to pay when the firm, not working at a loss, can afford the means for it, with the further proviso that a minimum living wage has priority of claim over other liabilities such as higher salaries, interest, and dividends. Thus the lowering of wages below a "living" minimum, in order to pay a dividend, is unjustifiable."

Moreover the principle that this minimum wage must be sufficient for the support of human life in a manner *befitting a rational being*, should be given its adequate meaning; it must therefore be understood to refer to a 'family life' and not merely to the worker's 'individual' life. This again is postulated by the natural law. By nature and normally the adult worker is a family man. He should therefore be able to provide for a normal family, for its members also must live and they are dependent upon him for their livelihood. The value of a man's labour, according to the natural law, is, therefore, a family livelihood. And since no difference is made to a man's labour-power by his marrying and having children, it follows that, in regard to labour-power expended, there is no difference between the married man and the bachelor. Hence, the objective minimum value of the labour power of every normal adult, married or single, is a normal family livelihood.

Some of the foregoing statements are not self-evident and they naturally call for further elucidation. But it was first necessary to lay down in a general form what human reason, assuming the existence of a law of nature which purports to secure the common welfare of the community, can strictly demand in the name of this common welfare. Moreover it is one thing to establish the principles on which the solution of this problem stands, and another to determine how they are to be applied. The concrete determination of the minimum wage lies beyond the limits of this study.[1]

It may seem strange that in this exposition of the fixing of wages, the employer has appeared nowhere except when he was told somewhat peremptorily what he had to pay, without hardly stopping to ask him whether he could pay it. In a general theory of wages, his claims, no doubt, would have to be considered; but, at present, we are concerned only with the minimum wage which human reason based on the natural law would demand for a normal adult labourer, or, what might be called, the basic supply price of unskilled labour.[2]

When an employer starts an industry he has to take the factors of production as he finds them. If,

[1] This concrete determination must take into account the various conditions of time and place. There is no single minimum wage in general; there can only be minima wages fixed by local conditions. In every case they must be based on statistics of costs of living and investigations of family needs, keeping abreast of the variations arising from changing conditions. While careful investigations such as those carried on by Mr. Seebohm Rowntree in Great Britain, are of great value, it is only when Society is organised in a corporate form that we can hope for an adequate estimation and application of the family wage.

[2] Over and above this basic supply price, all grades of trained labour are of course entitled to proportionately higher wages fixed by an equitable working of the laws of supply and demand. This broader question lies beyond the scope of the present discussion.

for his particular industry, a machine costing Rs. 10,000 is required, he has no choice but to pay the price, and so with the other factors. In the same way we have argued that normal unskilled labour has a minimum cost price, and once this claim of the natural law is admitted, the employer has no choice but to pay that cost price. It may be urged that there is the alternative choice of fixing the market price of labour on the accepted principle that where things are plentiful they are cheap and where they are scarce they are dear. The answer of social economics is that this law may apply generally to 'commodities' but it cannot apply to '*persons*', *except* above a definite living minimum. Labour is essentially a *personal* prerogative, not a commodity; a personal prerogative the use of which has a minimum objective worth indicated by the natural law, *i.e.* what is required to maintain human life in a manner befitting its human character. If the enforcement of this minimum wage is considered to be a breach of the law of supply and demand, we can point out that the same thing occurs wherever governments or industries fix their minima wage rates.

Family allowances

Reference has been made so far to a family wage while the practice in several countries is to uphold family allowances over and above the existing wage. In fact the two things are quite distinct, and even, to some extent, mutually exclusive. The family wage rests on grounds of commutative or strict justice while the family allowances are a form of social justice,

some would even say a form of charity. Commutative justice has to do with exchange. It is a claim by which, in an exchange transaction, each party must give to the other the precise equivalent of what he himself receives. The labour contract is just such an exchange transaction. The workman offers to an employer his labour; in return the employer must give him something equivalent to what he has received and this equivalent is, at a minimum, a family living wage. Commutative justice, therefore refers to what is strictly due from the employer to the workman. Family allowances, on the other hand, do not form part of the labour contract. As a form of social justice they are sums paid out of a general fund to which the firms representing a whole industry contribute their respective shares and out of which allowances are paid to the workers of that industry proportionately to the number and age of their children, irrespective of the particular firm in which they are employed. This method of distributing the allowances eliminates the employer's temptation to hire bachelors and exclude married workers. Family allowances are thus primarily a compensation for the absence of the family wage: the industry as a whole tries thereby to make up for the non-payment of the family wage.

This is the primary but not the exclusive purpose of the family allowances. We have seen that the family living wage is expected to meet the needs of a '*normal*' family which usually consists of husband, wife and three dependent children, this number being indicated by the fact that an *average* of at least three children per family is required to maintain the

population. Naturally this 'average' can be maintained only if a number of families have more than three children, and, in their case, the family allowances serve to meet the extra expenses not covered by the family wage. Where, on the other hand, the family wage is not paid, the burden of meeting the family needs falls entirely on the family allowances where this form of social justice has been introduced.

The distinction between the family wage and the family allowances is of special importance to our study. While the family wage is the normal solution of the wage problem, the family allowances without the family wage are a mere compromise. One is the adequate economic solution of the economic wage problem on grounds of commutative justice, the other is only a makeshift,—a necessary makeshift as long as the family wage is not established, but nevertheless a makeshift, as are the various minima wages which modern governments have been compelled to enforce in order to alleviate the evils of the existing wage systems. It is like asking Society at large to remedy the failure of its economic system in the performance of its task, while, on the other hand, the economic system itself gets no direction as to what it ought to do so long as it is controlled by an economic science which regards itself only as a positive science, "concerned not with what ought to happen but with what tends to happen." What tends to happen in this case is all too clear: through a distorted working of the law of supply and demand, the worker is deprived of the family wage to which in strict justice he is entitled. It is this apparent indifference of positive economics in presence of acute economic

problems that Prof. Souter had in mind when he appealed to economists " to face boldly in a constructive spirit the theoretical problems of Normative Economics conceived as organically related both to philosophical ethics and to political philosophy."

Rebuild the bridges

A practical consideration confirms Prof. Souter's thoughtful suggestion. As a fruit-bearing science, economics is bound up with practice, and it is by its practical usefulness that it must be judged. To isolate it in a pure theoretical field would be, as Prof. Suranyi-Unger already pointed out, to exclude from it a number of problems which only an economist can take up with any real hope of success. Such are, for example, the problems of the inequality of incomes, of private property over the means of production, of the organisation of economy on a co-operative or communist basis, of harmonizing the interests of employers and employees, of producers and consumers, etc., which are put on the expurgating index of Prof. Robbins. But who else, asks Prof. L. M. Fraser, can tackle these problems if not the economist? Philosophers will not, for their business is not to discuss what ought to be in a particular sphere like economics, but rather to study the conception of what ought to be in general and the nature of ends as such. Neither will psychologists do it, for they are concerned primarily with the general laws of human nature as such not, except incidentally, with their application to particular fields. In fact neither philosophers, moralists nor psychologists possess that knowledge of economic

facts and conditions on which decisions must be reached; they can only indicate the general laws by means of which economists can reach them.[1]

In his reply to Mr. Hawtrey, to which we have already referred, Prof. Robbins claimed that "between economics and ethics there is a logical gulf which no ingenuity can disguise."[2] As an illustration of this logical gulf we might argue as follows: the family wage due to the adult worker is an ascertainable fact within the purview of economic science, but to say that it *ought to be* enforced is none of its business, because there is a logical gulf between the two statements. Ethics also deals with ascertainable facts before dealing with obligations and so does Jurisprudence; why should Economics not do the same? Prof. A. L. Macfie, after explaining that the very concept 'economy' is itself essentially a normative concept involving the idea of a standard of economic efficiency, goes further and says: "In truth, history has overstressed the objective side of economics. The subjective side, which is a part of the ethical intention has only recently entered its kingdom. It has not cleaned up all the legacies of the older reign. It has pervaded the sphere of positive economics, but has not yet made its influence duly felt on the relations of economy to the other social sciences. In sum, it has not yet forced the recognition of its normative side. But this must come. For the subjective aspect is the intentional; and intentions are the steps through which the social sciences mount up to ethics. If we try to treat positive economics as final, the purely objective

[1] The Economic Journal, 1932, P. 566.

[2] Op. cit. P. 132.

view soon breaks down... .. If economy were no more than fact or logic, no ethical criticism of economics would be in order. No ethical criticism of the binomial theorem is called for."[1]

And again, referring to the inevitable "overflowing over boundaries of each of the sciences we are considering, Prof. Macfie concludes in emphatic terms:

"I utterly refuse to apologize for this shading of the sciences into each other: Too long has the continuous tissue of the social sciences been dissected by the knives of the merely tidy-minded. Certainly specialisation is necessary to progress, but mere specialisation is fanatic anarchy. We must rebuild the bridges between the sciences. And the bridge between social economics and social ethics is surely just the one indicated—the relation of the best use of scarce means, not only to actual society, not even only to the best economic society we can conceive, but specifically to the best ethical society conjured up by the thought of our time."[2]

To sum up. After examining the nature of economic welfare and the possibilities of increasing its total aggregate by a better distribution of incomes, we have been led to consider directly one of these incomes, the minimum wage of the adult unskilled worker. We reached the conclusion that there is such a basic supply price of labour,—an objective, calculable reality, and one, moreover, which is due in strict justice to the normal unskilled labourer. From this we do not conclude that all employers are inexcusable who fail

[1] Op. cit. P. 116-118.
[2] Op. cit. P. 80.

to pay this wage. Those firms which do not work at a loss and whose aggregate output allows them to pay it, are in justice bound to do so, even at the cost of reducing or foregoing the dividends; but all employers may not be in such a fortunate condition, particularly in these abnormal times. Wages are after all part and result of the existing economic organisation, and an equitable wage system may not be ushered in before a considerable, if gradual, reform of our present economic disorganization has taken place. In the meantime the use of makeshifts must be continued. This statement is perhaps liable to be misunderstood. Although it has been said in unexpected quarters that 'we are all socialists to-day,' we demur to such a view and neither admit that we are, nor agree that we ought to be socialists. But there can be no hesitation in saying that we ought to become far more *social* than we are, social in the development of a more practical economic science as well as in the initiating of concrete realizations. We shall therefore examine next how these social realizations can be brought about, taking first a survey of the social background.

5

THE SOCIAL BACKGROUND

AT the close of the last lecture reference was made to the need of a reform in our socio-economic organisation. The social character of economics was previously shown to result fundamentally from the social character of its object, and we have now to examine the social background which is thereby given to economics. Once it is agreed,—and economists generally agree in this with Marshall,—that economics has to do with human acts *individual and social*, the social factor becomes a necessary part of the economic system as such. All problems of organized production and marketing, of trade and industry, whether local, national or international, are fundamentally socio-economic problems. They cannot be solved without taking into account the social factor, the social background. Now this social background is nothing but that civil Society established to complement family life and organized to procure, with the active co-operation of its members, the common good of all. Economic welfare, on the other hand, which is the ultimate object of economics, is part of that common good, and therefore its realisation, like that of the general good itself, must be the outcome of the combined activities of the State and of individuals.

Problem unsolved

At this point there is a crucial problem which still awaits a solution. Admitting that this common welfare is to be attained by the combined efforts of the Society-State as a whole on the one hand, and of its members on the other, the problem is to determine what is the share which the State and the members respectively have the duty to perform and the right to claim as their own, in the realisation of this common good. That problem has not yet been solved, and the clashes between capitalism and socialism, between liberal and totalitarian systems, are largely the result of this failure to determine the respective fields of action of the two agencies. According as the private individual or the State is made the predominant or exclusive agency, the character of the economic system is wholly modified, and not the economic system only, but the very end and purpose of all economic activity: the common welfare itself may cease to be the end in view.

In order to make this proposition clear, a mere description of capitalism and of socialism would be of little use. There is even the danger that when systems are thus set against one another, either wrong or exaggerated conclusions are, from the contrast, likely to result. To say, for instance, that capitalism safeguarded private property whilst socialism sacrificed it, would be doing wrong to socialism and giving undue praise to capitalism, since socialism recognizes certain forms of private property, while one of the main points of criticism against capitalism is its distorted

interpretation of the principle of private property. A better method of clearing the ground seems to be to establish the right notions on some of the fundamental issues and then examine whether, and if so, how far the existing systems have deflected from them.

We shall examine two of these fundamental principles, the first, regarding the function of the State in economic matters, and, secondly, the exact nature of the right of private property which is at the basis of our economic system.

Basic assumptions

The proper share which the State should have in the pursuance of the common welfare is probably the main stumbling block which divides the liberal individualist and the socialist schools of thought. But before we can pass a judgment on either, we should know by what standard we are going to do it. The principles which have already been explained when dealing with the foundation of social economics may help us to find a solution. We then enquired into the origin and nature of the Society-State. Civil Society or, in its authoritative aspect, the State, is not the product of mere chance, nor the result of any fanciful convention or social contract, but it is a *natural* product in the sense that it is the natural completion of the family and, as such, the normal sequence for man's natural development. The State is not meant to supplant the family but to complement it, to help it to attain those higher forms of progress and development which the family alone could not achieve, but which a complete, self-sufficing society can help to realize.

It was further noted that the individual himself, as a moral person, has personal rights even against the State, the State having come into being only after the family and the individual. The latter is an autonomous being endowed with physical, mental, and moral faculties for the realization of his own end, whom the State is bound to respect, safeguard and assist. Reciprocally the individual has social duties towards the State and is bound to co-operate with it in the prosecution of the common good. This co-operation of the individual is both the duty and the right of a free, autonomous member of the Society, entitled to participate in promoting, as well as in sharing the common good. From this it follows that the common good cannot be regarded as the exclusive business of the State and of State officials.

Moreover among the rights of the private individuals is included the power to form those natural organisations which, within the civil society, members are entitled to set up,—private voluntary associations that help to promote the interests of the members and are not adverse to the common good. Professional associations and trade unions are cases in point. For, as the memorable Encyclical of Pius XI on the 'Social Order' pertinently points out:

"It is natural that just as those who dwell in close proximity constitute townships, so those who practise the same trade or profession, in the economic field or in any other, form corporate groups. These groups, with powers of self-government, are, by many considered to be, if not essential to civil society, at least *natural* to it. . . . . Not only is man free to institute those unions which are of a private character,

but he has the further right to adopt such rules and regulations as may best conduce to the attainment of the end in view, so long as this end is in harmony with the common temporal good of the civil society."[1]

In the light of these principles it is easy to see why the liberal and the socialist views on State participation in economic matters, while opposed to each other, are both equally objectionable and cannot be accepted as alternative choices. If the omnipotence of the State claimed by socialism is in flagrant contradiction with the rights of individuals to manage their own affairs independently of the State, so long as they harmonize with the common welfare, the claim of liberal individualism for *laisser-faire* and Government non-interference in economic matters, is equally in flagrant contradiction with the very *raison d'être* of the State which is to guide, to assist and to co-operate with the members in the attainment of the common good.

It should be noted, moreover, that, by rejecting State co-operation in economic matters, Liberalism practically tends to reject the very concept of the *common* good. Its fundamental principle that private interest moving in an atmosphere of unrestricted freedom, works out for the greater good of the whole Society, has not only been proved to be egregiously false, but, by thus turning men's activities into the wrong channel, has sacrificed the attainment of the common good to the pursuit of purely selfish ends. "When evil things are allowed to hide behind noble words, the people are in

[1] The Social Order, Nos. 83, 87.

danger of perishing. Liberalism is a noble word. It means a spirit of generosity, toleration and magnanimity. The 'Thing' which it now covers came out of the jungle. The modern justification of this duplicity is laid down to the writings of Adam Smith. His contention was that no man could serve the community better than by building up his own fortunes, and that self-interest promoted the maximum social good. From this irresponsible doctrine arose the policy of *laisser-faire*, the elevation of profit-making into a major virtue and the identification of poverty with vice. It is obvious that mankind cannot possibly survive corporately for any length of time on a *social ethic* of this kind without constant self-deception."[1]

The ethics of liberalism

It should be recognized, on the other hand, that wholesome reactions are taking place in the liberal camp. But while some of them are prepared to admit, and even to justify, what has been called 'the end of *laisser-faire*,' and to condemn the more obvious evils of the system, their love of free private enterprise which has excellent points to recommend it, and their equal abhorrence of any form of State control, some modern forms of which are in truth sufficiently

[1] *The Weekly Review*, August 1939, P. 579. The reference to A. Smith may, to some, appear questionable. Without entering into a discussion which is outside our present object, it may be pointed out that, with all its merits, *the Wealth of Nations* is not a model of consistency. On this subject in particular while passages may be quoted recognizing some limits to the system of Natural Liberty, they are rather the exception, and A. Smith generally upholds that system, often vigorously. His reference to 'the invisible hand' had become the motto of classical liberalism: "By directing [his] industry in such a manner as its produce may be of greater value, he intends *only his own gain*, and he is in this, as in many other cases, led by *an invisible hand* to promote an end (the prosperity of Society) which was no part of his intention." (I. 421 and II. 43.)

deterring, lead them so to revise their system as nevertheless to maintain it substantially intact.

One of their ablest thinkers, Prof. F. H. Knight, has recently published in this connection a study at once penetrating and curious,—others might call it challenging. Under the heading, *Ethics and Economic Reform*, he examines in their relation to economic reform, first, the system of liberal economics and then three so-called ethical methods or approaches (Idealism, Marxism and Christianity) which to him seem to be most important as basis for the criticism of liberalism and possible successors to it as the ethical basis of a social order. The first part of this study is entitled *The Ethics of Liberalism*, two words, the union of which, to some sensitive ears, may sound like a howler. Prof. Knight, however, is nothing if not an earnest thinker, and, in this particular study, his intellectual acumen seems to be further stimulated by a sense of practical issues. He gives the impression that we are at the parting of the ways and that a decisive choice has to be made.

The study is a searching one, a piece of hard thinking. It raises many intricate issues which would require more space than is here available. What interests us, however, is not so much a detailed survey of his inquiry as a fairly accurate summing up of his trend of thought on the matter at hand. He seems to have undertaken the work as an irksome task, but one the importance of which imposed itself on his earnest mind. How to speak of Ethical Liberalism when, as he says, "the ethical common sense of modern Western civilisation seems to be little more than a tissue of vague generality and contradic-

tion? It seems hardly possible to find ethical premisses which can be used as a basis for reasoning and which are not matched by other premisses equally valid or plausible, in the abstract, and as generally accepted."[1] That, in spite of such a depressing outlook, Prof. Knight has undertaken to write these articles affords evidence that the thoughtful minds in the Liberal school realize that some introspection is needed to find out whether the ship is still seaworthy, or rather, being himself convinced that she is still the safe and reliable merchant ship that she was, excepting for the need of sundry repairs and a new paint coating, after a long and profitable cruise, Prof. Knight is endeavouring to show, for the benefit of those who think otherwise, that the liberal merchantman is reliable, the hull quite sound, the engines in good working order, and, what comes as a surprise from a liberal economist, that she is provided with the desirable ethical gear.

Whatever may have been the reason which led him to stress this last point, Prof. Knight is perfectly frank in his recognition of the ethical character of economics, liberal economics not excepted. "At first sight," he says, "it might seem arguable that in such a system there is little or no place for ethics, that it is non-ethical, if not unethical; for it makes little reference to moral obligation, especially in a positive sense. But this view can be shown to be an error. Every social order, in fact, all organised action, all social life and all human life, is necessarily ethical in as far as its character is a matter of deliberation and conscious acceptance on the part of its participants."[2]

[1] Economica. August, 1939, P. 296.

[2] Economica, February, 1939, P. 4

After stating that "the primary ethical claim on behalf of free enterprise as a mechanism of economic organization is that each contributor takes from the joint product the equivalent of his contribution in productive service," Prof. Knight gives the essential social-ethical principle of liberalism to be that "all relations between men ought ideally to rest on mutual free consent and not on coercion, either from the other individuals or from Society as politically organized in the State;"[1] and he concludes from this that the only "right function of the State, according to this ethic, is to use coercion negatively to prevent the use of coercion by individuals or groups against other individuals or groups." This statement reveals both the strength and the weakness of the liberal position. The support it gives to individual freedom is too near to the human heart not to create a powerful attraction, while the apparent recognition of the ethical character of economics may increase this attraction in the minds of those who look for freedom within the framework of a human and humane economic order.

But there is more appearance than reality in the strength of this position. For one thing the promised freedom is not a fact, but what 'ideally ought to be,' while no tangible guarantee is given as to its realization in practice. It is still a *laisser-faire* regime in which the State has only the negative policeman's duty, while in practice individual freedom continues to be tampered with under the smug cover of so-called free contracts. The author seemed at first inclined to admit this latter flaw as if to suggest a remedy:

[1] Loc. cit. P. 5.

"One of the main factors of the present crisis," he writes, "is that the public have lost faith in the moral validity of market values.... It is especially in the field of wages, the price of labour, that the tendency to reject market standards is strongest."[1] In a study on the *ethics* of liberalism this statement might have been expected to lead to some sympathetic consideration of this 'strong' public opinion on the wages problem. Instead, Prof. Knight reasserts the undiluted liberal principle that 'business' must be separated from 'charity,' meaning by it, as he says, all personal considerations in general, and the employer-employee relation in particular. Thereby the deficiencies in the operation of the laws of supply and demand regarding wages are relegated to the realm of charity and removed from the field of economics proper. And yet we had been told that "the primary ethical claim on behalf of free private enterprise, as a mechanism of economic organisation, was that each contributor takes from the joint product the equivalent of his contribution in productive service," i. e. a *just* remuneration. We can only say that Social Economics holds this same principle, and, it is in view of this principle that it asserts the obligation on economic grounds, of paying the minimum family wage, as an essential part of an exchange contract. It is not a question of charity but one of strict justice.

From the foregoing discussion one thing seems clear: liberal economics remains essentially what it was,—an economic system based exclusively on the unimpeded freedom of individuals and private enterprise, by means of which the system is expected so to

[1] Loc. cit. P. 16.

work itself out that each contributor to the joint product gets the equivalent of his contribution, the State, meanwhile, debarred from all economic activity, being left only with the negative duty of preserving individual freedom from coercion. But that system has already failed. Capitalism has been the result of liberalism, and capitalism in practice means "a system in which the ownership of the means of production (land, mines, factories, machinery, etc.), is vested in the hands of relatively few people, a much larger number of people being employed by these owners to work for a wage; a system, moreover, to which the economic motive is the private profit of those who own the means of production."[1] When to such an obviously one-sided organisation is added the re-assertion of the principles that brought it about, it is no wonder that the demand for its removal or for its genuine reform is becoming every day more definite.

The radical error of the liberal creed comes from considering private enterprise and State co-operation in economic matters as mutually exclusive agencies. In reality each separately is inadequate; and this explains why it is easy for the upholders of one system to proclaim the failure of the other, Socialism against Liberalism and reciprocally. According to the natural law both agencies have each a positive function to fulfil towards the attainment of the common good, and it is only through their active co-operation that the excesses either of individualist competition or of State tyranny can most effectively be eliminated.

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[1] Capitalism and Morality, by Lewis Watt, P. 39-40.

Socialism anti-social

The criticism of the liberal view concerning the share of the State in economic matters, holds good *mutatis mutandis* against the corresponding error of the socialist omnipotence of the State. The proper balance between State authority and individual initiative is, if anything, more entirely and more ruthlessly suppressed by socialism, which thus leads to even more disastrous consequences concerning the fundamental claims of man as a free, self-determining, moral entity. If individualism exaggerated the rights of the individual, socialism makes a shambles of them, although,—and this is the tragedy of it,—there was undoubtedly a humanitarian purpose behind the socialist movement at its start, in its endeavour to ameliorate the economic condition of the workers. Liberalism had done grievous wrong by ignoring the social aspect of man and his social responsibilities, while as the result of an unequal struggle, its endeavours to extol the individual led only to the survival of the strongest, even more than that of the fittest, and signally failed to procure the common good of all. Socialism had there its opportunity; it could have restored the balance and once more placed man in his due social surroundings. Instead, it sacrificed man's individuality while failing to realize man's social worth. In the liberal scheme man stood alone against a competitive world; in the socialist ideology he has become a mere cog in the wheels of an inhuman machine; man cannot fulfil his social responsibilities once he has been deprived of his personality.

Thus, strange as it may sound, facts go to show that socialism is not social; it is even aggressively anti-social. The summary abrogation of even the most elemental human rights and the starving wages which it pays to its enslaved labourers in Russia are facts made known to the world even by convinced socialists and communists on their return from the so-called paradise of the Soviet workers. The evidence on this point is overwhelming, coming from such authorities as Sir Walter Citrine, Secretary of the British Trade Union Congress, who went "to search for truth in Russia"; André Gide, the brilliant French writer and staunch communist, who wrote: "I doubt very much whether there is any other country in the world, including even Hitler's Germany, where the spirit of man is less free, more curbed, more terrorised and more enslaved than in the Soviet Republics;" Andrew Smith, an American citizen and convinced revolutionary communist who, by his own free choice, was a Soviet worker for three years, but left Russia bitterly disappointed; and a host of other disillusioned socialists who saw with their own eyes and lived through the horrors of the Soviet regime.[1]

Another anti-social aspect of Socialism which cannot be overlooked in a study of socialist economics, is the class-war, which, if its object materialized, would mean the end of all economic organisation. To say that capitalism has treated labour unfairly or unjustly is one thing, to declare that capital and labour form two classes which are inevitably at war against each other, one of whom must be wiped out, is quite a different

[1] *I search for truth in Russia,* by Sir W. Citrine; *Retour de l'U.R.S.S.,* by André Gide; *I was a Soviet worker,* by Andrew Smith.

thing. The former broadly is a fact, an ugly fact, the latter is a perverse fiction or, more truly, a most subversive form of anti-social mesmerism. Anyone acquainted with the facts of history knows that when the class-war campaign began to take shape in the latter part of the nineteenth century, the social situation clearly was not one of class-war. The class-war idea was taken up by Marx as expressing very aptly his own ideas on liberal economics and as affording at the same time a powerful support to Marxism by the creation of a class-war mentality among the proletariate with its dynamic possibilities.[1]

The very propaganda made to that effect is the best proof that the class-war had not previously existed, or there would have been no need for it. Class-war is an artificial engine, not the natural outgrowth of a working economic system, since economically "capital cannot do without labour nor labour without capital."[2] But by a cleverly distorted presentation of the hated bourgeois, Marx made the bourgeoisie appear as the born enemy of the proletariate, a selfish 'class' which had taken possession by 'force' of the honest masses of society, and was 'exploiting' them for its own purposes. Such a selfish class, being wholly perverse, should obviously be destroyed. That the accusation of selfish interests applied even more glaringly to the promoters of the class-war themselves

[1] While, with invincible optimism, H. G. Wells was "in search of some competent directive organisation," for a "World-wide collectivism," he bitterly complains that there came instead "the clumsy initiative of Marxism with its class-war dogma which has done more to misdirect and sterilize human good will than any other misconception of reality that has ever stultified human effort." (*The Fortnightly Review*, Nov. 1939, P. 491).

[2] The Social Order, No. 53.

seems never to have occurred to the masses who were taken in. Writing to Joseph Weydemeyer, Karl Marx explains his share in the class-war:

"As far as I am concerned the honour does not belong to me for having discovered either the existence of the classes in modern society or their struggles with one another. Bourgeois historians had long before me shown the development of this struggle of the classes. What I added was to prove: 1. That the existence of classes is only bound up with certain historical struggles in the development of production (his economic determinism); 2. That the class-struggle necessarily leads to the dictatorship of the proletariate; 3. That this dictatorship is itself only a transition to the ultimate abolition of all classes and to a society without classes."[1]

As for this ultimate ideal, the 'classless' society, it has never been described because it simply cannot be, except in the form of some vision of a fantastic Utopia, a society in which there will be no problems or issues, especially economic issues, on which people can at all disagree. Historical facts are less utopian if more revolting. The Russian revolution has led to the seizure of political power by and for the leaders of a working class party, and to the establishment of a dictatorship of the proletariate,—*over* the proletariate and not *by* it, as Gide himself described it. Soviet Russia is the type. Its dictatorship has not only become progressively more dictatorial over everybody, more ruthless and less equalitarian, but it has naturally tended more and more to put off indefinitely the

[1] Cyril C. Clump: Marxism, P. 59.

removal of the dictatorship and the establishment of the classless communistic society.[1]

National Socialism

The National Socialism of Germany need not detain us long. For our present purpose and so far as principles are concerned, there is little to choose between the Soviet and the Nazi notion of an economic system: both are equally totalitarian. Originally their ideologies,—to use an ugly, though current, expression, —were certainly different: the domination of a *class* in one case, that of a *race* in the other. But in both cases the methods and the results have been the same: a total disregard of human rights and of the natural law which calls for co-operation and co-ordination between the activities of the State and the free activities of the members in pursuance of the common good; the violent usurpation of the political power of the State by a party for its selfish ends; the infliction on Society of a self-contradictory 'single-party supremacy,' and the bondage of State authority itself made to serve as an instrument of oppression against that Society for whose common good it should exist.

The aim of National Socialism, we are told, is national power. "This implies a large population, vast territory, a huge army, hegemony of the world, beginning with that part in which the nation lives; every field of culture subject to this aim, and all rights and claims to be derived from it. Economics becomes subordinate to politics, with no recognition of its own laws and necessities. Only one question

[1] Economica, 1939, P. 320 (passim).

may legitimately be asked: how is economics to be harnessed to national expansion? And, not economics only, but all departments, all activities, all individuals as well." "National Socialism," concludes Frieda Wunderlich, "is based on a socialist foundation. But while socialism in pre-Nazi Germany was demanded in the name of freedom, National Socialism uses socialistic institutions for the sake of the totalitarian state which suppresses freedom."[1]

On the other hand national power is not opposed to the common good so long as it conforms itself to the dictates of the natural law and of human welfare, and so long as it is conceived as an intermediate and instrumental end, that is to say, as a means to the ultimate end of the State which is the wellbeing of the community. The error and the danger is to conceive national power not as a subsidiary end but as a primary, and even as the ultimate end of the State. For wherever this view is upheld and such a policy prevails, the primary and essential purpose of Civil Society is destroyed, the individual is sacrificed to the State and the glorification of the State as a separate entity is sought to the detriment of the citizens. This doctrine that the State is an end in itself, that the State does not exist for the individuals, but the individuals for the State, is the too natural result of rejecting the natural rights of man. If the individual has no personal rights independently of the State, then the State is the supreme determinant of rights.

That National Socialism has gone to extremes in this matter is startlingly revealed in the documented

[1] The Q. J. E., Harvard, May, 1938, pp. 401-431.

work recently published by Dr. N. Micklem, Principal of Mansfield College, Oxford. Herr Hitler, says Dr. N. Micklem, "had already, before his seizure of power, set up skeleton ministries and a skeleton civil service within the Party that were able at once to take over responsibility. The Party being a minority was already organized as a State within the State—with its army, its police, its propaganda department, and its press. By the seizure of power it at once *identified the whole State with itself*; the principles on which the Party was organized became the principles on which the State was organized; and the enemies of the Party became the enemies of the State. All this was effected by uniting in single persons a double office; thus, for instance, the head of the propaganda or the police of the Party became also and at the same time head of the propaganda or the police in the State." Similarly with the social organization of the national life. Thus the unions of teachers, merchants, students, lawyers, artisans, agricultural workers, doctors, nurses, welfare workers and scientists were all reorganized and brought under the control of a Party leader. By this method of organization extending even to the local groups, it has come about that of the three million Party members some half of them hold leading positions either directly from the State or in some of its many associated organizations. Meanwhile, in the case of the ordinary citizen, the ruthless application of something like 'martial law' in effect robs the individual of all rights whatsoever.

"On principle the totalitarian State cannot permanently tolerate any organization of the masses that is independent of itself. Any such organization it regards as in competition with itself and as jeopardizing national unity." This explains the persecution of

the Churches. Against the quasi-religion of 'Race, Blood and Soil' of the Party, the Christian Church stands condemned as a rival and an enemy of the Party, and therefore of the State.

"The Nazis are not occasional or frequent offenders against their own ideals; they are consistently loyal to the ideals they have espoused. In particular they find the basis of Right, not in some universal law, whether written in the hearts of all men or revealed from heaven, but in the demands and requirements of 'the German soul.' Right is what the People wills, and the will of the People is represented solely by the Party which is itself under the control of one man, the *Führer*. This will be almost inconceivable to many readers. None the less, it is explicitly affirmed in the official Party documents and is illustrated by the whole course of events since the seizure of power in Germany."[1]

Such incredible excesses justify with a vengeance the dictates of reason and of the natural law which demand co-operation and co-ordination in the preservation of the rights of the State and those of the individuals as against the absolute supremacy of one over the other.

Private ownership

Private ownership is another important element in the structure of the economic organism on which we can hardly boast to have reached a final agreement. It does seem strange at first sight that there should

[1] National Socialism and the Roman Catholic Church, P. 24-30. (passim). These facts ought to enlighten those who fail to see in the present war a struggle between two civilisations. It is not a war between German and Latin civilisations, nor one between civilisations which differ in the range and degree of material, technical and artistic progress, but clearly a war between two civilisations based respectively on a Christian and an anti-Christian concept of life, personal, national and international.

be people opposed to private property when it is so obvious that all men need some property in order to live. But of course the problem is not quite so simple as that. The objection is not so much against the fact of property as against the right which entitles one to own property. And this right itself is not attacked so much for its static as for its dynamic character. People will gladly have the security of a right over what they actually possess, but it is the expansiveness of this right, its dynamic power to extend over more and more things, especially capital goods, which is questioned, and this not when it happens to oneself so much as when it happens to others. The economic world being regulated and limited by the principle of scarcity, the impression is easily created that the more one has the less there is for the others to share. Nor is it an impression only but a hard fact: everywhere the contrast exists of people having far more than they want and others far less than they need. In presence of these apparently unjustifiable inequalities, a simple argument has got hold of some people's minds: if the right of private property did not exist no such inequalities would occur; therefore the right of private property is the root-cause of this injustice; therefore it should be abolished. Rather a *post hoc ergo propter hoc* argument, but dangerously plausible for simple minds and even for others less simple.

We need not delay to prove the legitimacy of some private ownership. We have already seen that it is a necessary consequence of the natural law which asserts the right of man to live and therefore his right to own what he requires to maintain that life, and not only his life but family life. Moreover neither

the socialist nor the communist would entirely deny this elemental right, and their very protest against the poverty of the poor may be regarded as an implicit admission on their part of the right of man to own what he strictly needs.

The real difficulty of the problem of private property arises when we come to examine the legitimacy of the amount and the kind of goods that may be owned privately. Here again there is an argument, on which we shall not insist, likely to appeal to simple minds: let all have equal shares, it says, and everything will be right. As well decree that all men shall be equal in height, in strength and in brains. Soviet Russia tried this process of equalisation but failed lamentably, and comrade Stalin has since proclaimed, presumably as a discovery of Soviet economics, that better work deserved higher pay and that differences in wages were perfectly legitimate. It is not clear, however, whether in Soviet Russia the higher pay goes always to the higher grade worker or to the higher grade communist.

The problem of determining what amount can legitimately be owned by a private individual requires careful handling, not because the principles are not clear, but because anything which seems to favour inequality is easily suspected or condemned. The conflict here is with socialism. It does not bear on the legitimacy of *some* private property which practically all admit. It does not even bear directly on the greater or lesser amount of private ownership over the instruments of production, this being rather the consequence of a more fundamental principle. The conflict arises from the exact nature attributed to private property.

Social Economics holds that the right of private property is not, of itself, quantitatively limited, while recognizing that this presumption in favour of private property is subject to, and limited by, possible social claims arising from the fact that man is a social being with social responsibilities. Socialism on the other hand holds that the right of private property, if it exists, is limited to the necessary minimum justified by man's right to life, unless he can prove on other grounds, that he is entitled to a larger amount to be decided by the State. Thus Social Economics maintains that, by the right of private property, man is entitled to own legitimately any amount, short of possible social claims on him, whilst Socialism limits that amount to the necessary minimum, and brings in the authority of the State for any larger amount.

Its Social Character

The importance of this distinction will soon be apparent; it ultimately rests on the philosophical bases of the two systems and the place which private property holds in each of them. Socialism upholding a collective economy makes the State the supreme producer and owner of the collective wealth. The individual has no private right to that wealth beyond the life sustaining minimum, and, for any larger share, he must produce other claims. It is for the State to judge of the claims and to fix the share. Social Economics, on the other hand, which upholds neither a collectivist nor an individualist, but a private economy with social responsibilities, does not merely,—as socialism does,—recognize the elemental right based on the right to life, but goes much further by basing

the right of private property not on man's *needs* but on man's *nature*; and because man's nature is independent of, and anterior to, the State, it rejects the view that the right of private property, a natural right, should be regarded as a creation of the State. This right of private property is essentially an extension of man's personality and, as such, exists independently of the State. This of course applies to the *right* itself, not to the *exercise* of the right which, under definite conditions, may come under State control. Moreover, like any other natural right,—right to life, to honour, to personal freedom and to freedom of conscience,— it is, by itself, free from any limitation, and can therefore legitimately extend not only to necessary, but also to superfluous property. The general argument might be put as follows: in the problem of the distribution of goods reason demands that, until the contrary is proved, preference should be given to private as against collective property (collective or public property is also admitted), because private property secures more effectively the rights of the human person. On the other hand, in as much as Socialism places the collectivity above the individual, its argument would similarly say: until the contrary is proved, preference in the distribution of goods should be given to collective or State property as against private property, because in their view it safeguards the collectivity better than any other form of property. And when it is remembered that this preference is to be settled by the State itself, it is easy to foresee the conclusion.

This intrusion of the State over the right of private property was strongly denounced already fifty years ago by Leo XIII:

"Not only," he wrote, "is such interference unjust, but it is quite certain to harass and worry all classes of citizens, and subject them to odious and intolerable bondage. It would throw open the door to envy, to mutual invective, and to discord; the sources of wealth themselves would run dry, for no one would have any interest in exerting his talents or his industry; and that ideal equality about which they entertain pleasant dreams would be in reality the levelling down of all to a like condition of misery and degradation."[1] The truth of this severe indictment was also confirmed by Sir Walter Citrine when, on his return from Soviet Russia, he declared that there was no more damaging indictment of the workers' paradise than the statement that a Soviet worker is not better off than an English unemployed: the dole of a capitalist country was as good as the wages of the communist republic.[2]

While Social Economics holds the right of private property to be a sacred trust on the preservation of which depends the maintenance of social order, it does not regard it as an absolute or a changeless claim in practice. The possibility of its limitation was implied in the statement that private property over superfluous goods may be limited by social responsibilities.

Ownership, like labour, has both an individual and a social character, which means that in these matters men must take into account not only their own advantage but also the common good. And because the State is the authority established by the natural law to procure that common good, the State,

[1] The Workers' Charter, P. 18.

[2] Op. cit. P. 102.

in co-operation with the members, is entitled to limit the exercise of the rights of private owners. Not in an arbitrary manner, however. Man's right of possessing private property and transmitting it by inheritance is a natural right and therefore it cannot be taken away by the State; it can only regulate the exercise of it, control its use and bring it into harmony with the interests of the public good. "When civil authority adjusts ownership to meet the needs of the common good, it acts," as Pius XI very aptly remarks, "not as an enemy, but as the friend of private owners; for thus it effectively prevents the possession of private property, intended by nature's Author in His wisdom for the support of human life, from creating intolerable disadvantages and so rushing to its own destruction; it does not break down private ownership but protects it; and far from weakening the right of private property, it gives it new strength."[1]

As a matter of fact this power of the State to limit private property with a view to procure the common good by helping to a better distribution of wealth is already practised in most modern non-socialist States by such methods as progressive taxation, exemption from income tax below a fixed minimum, and by various forms of social insurance such as unemployment insurance, housing subsidies and State co-operation in family allowances schemes. The vast sums which modern States have thus to spend by way of social relief, have even been adduced by some as a proof that modern industrial conditions lead inevitably to a socialist economic regime. But the inference has

[1] The Social Order, No. 49.

no foundation. What may be taken as proved is the failure of an individualistic system which has disregarded the social responsibilities of private property and of private enterprise. On the other hand there is a world of difference between an economic system based on private property which recognizes its individual and social character and its duty to co-operate with the State in the attainment of the common good; and an economic system based on collective property, the supremacy of the State in economic matters and the abolition of free private enterprise and co-operation towards the public good. The ultimate difference between the two systems comes from the objective fact that the former is in keeping with human nature and the natural law, while the latter is definitely against human nature and man's personal rights, and therefore unnatural, precarious and necessarily based on force.

No doubt the problem of maintaining the proper balance between the rights of individuals and those of the State is a delicate one; but much will have been gained if the thinking world comes to be convinced of the absolute necessity of realizing such a balance of rights and responsibilities. The economic problem can be solved in no other way. In the next and concluding lecture an endeavour will be made to present a possible solution of the problem.

6

TOWARDS ECONOMIC ORDER

WE have so far examined in broad outline the social background of economics as it has worked itself out in the last century. It is not a pleasant picture. Applying the positive method of describing *what is*, we have come to realize that, whatever it is, it is not as it should be; and before concluding our task, we may be permitted to take a normative outlook and indicate one aspect of what *ought to be* if things are to be better than they are actually. Before doing so, however, it will serve our purpose to recall briefly and to bring together the main issues we have considered in the course of these lectures.

A Retrospect

Social economics has been presented as primarily a practical science, dominating, but by no means excluding, the theoretical aspect; a 'fruit-bearing' more definitely than a 'light-bearing' science. This view was based on, and was derived from, the nature of its object, *human* activities, which, because they are human, necessarily bear a social and purposive character, nay an ethical character as well, which, as Prof. Knight pointed out, pertains to all social life in as far as it

involves conscious deliberation. Being social and purposive, we concluded that social economics must therefore be a normative science, that is to say, a science which recognizes ideals and strives after their realization. Positive methods, nevertheless, are not excluded since the knowledge of 'what is' affords an important and often an indispensable basis to the study of what 'ought to be.' But the positive study of 'what is' can only be the preparatory stage of a practical science which aims at establishing what economic progress 'ought to be.'

The objection that "propositions involving 'ought cannot be justified by appeal to any kind of positive science" does not apply to economics which is essentially a social, and therefore practical, science. Moreover the implication that positive economics is scientific precisely because it is positive, is inadequate and strictly incorrect. No doubt positive economics endeavours to be,—others say, makes a show of being—an *exact* science, but there is no monopoly attached to the name 'science' in favour of exact sciences exclusively. The traditional and universally accepted definition of a science is that it is a body of systematised knowledge about a definite object, and this definition holds good for the moral as well as for the physical sciences. Else we should reject our present human standards and deny that moral certitude is as legitimate as physical certitude as a channel of truth and knowledge: philosophy, political science, jurisprudence and ethics are everywhere accepted as genuine sciences. Economics dealing with wealth and with man, may be said in a way to belong to both the natural and the moral sciences, but because man is the

principal object, and wealth itself is wealth only with reference to man's concerns, Economics belongs primarily to the group of moral sciences. When therefore Prof. Robbins states that 'our scheme of things' can be justified by appeal to ultimate standards of value, not by appeal to any kind of positive science,[1] he really gives the fundamental reason why economics should be regarded as primarily a normative, not a positive, science.

Although the 'social' aspect permeates the whole field of economics, it was not possible in this short study to present an extensive survey of the social character of our economic problems. The price system, in particular, which, in itself, is a wonderfully ingenious contrivance, would have offered a broad field for social application as regards the fundamental notion of the just price, the deviations from it due to interested devices in the working of supply and demand, and the exact place which the price system ought to have in a soundly constructed economic system. 'Profits' could similarly have afforded interesting matter on what exactly is covered by the word in its economic sense, the methods and principles of its distribution and the place to which it is entitled as against the 'rewards' of the other factors. These and similar problems would naturally form part of a treatise on social economics. We have only touched on the problem of interest and emphasised more particularly one aspect of the wages problem, the right solution of which,—and this means a just solution,—would go a long way to unravel the modern socio-economic dead-lock.

[1] Op. cit. P. 125.

We have already referred to the earnest efforts made, and the various measures adopted, in modern countries, to alleviate the condition of the workers, either by way of discriminating taxation or by numerous forms of social insurance. Nevertheless, we have to admit that this is only an alleviation, not a solution, of the problem. Ours is still essentially a liberal economic system which regards economic activities as a separate field by itself, severed from other and higher human purposes to which it is really subordinate, a system which still regards wealth as its main object, and private interest as the main motive force. This liberal individualism, the outcome of a method as well as of a philosophy, continues to place production above the producer, money above its user, and the wealth of nations above the common good. A striking illustration of this occurred recently in Great Britain, where, however, the alleviating measures are particularly prominent. That this occurrence should have happened in so well established an organisation as the British Railways makes the case all the more significant.

An object lesson

Last year the delegate conference of the National Union of Railwaymen in Great Britain decided by a large majority to reject the award of the Railway Staff National Tribunal which, while agreeing to some of their lesser demands, did not enforce their main claim that no adult worker should receive a wage of less than 50 s. a week.[1] This claim affected 101,000 men whose wage rate (including a cost-of-living bonus)

[1] J. R. Kirwan: The Christian Democrat, 1939, P. 73 (passim.)

was less than 50 s. a week, and the railway companies estimated that to bring them up to the required minimum would entail an additional expenditure of £ 1,479,000. Moreover, a large number of railwaymen, who receive less than 50 s., were not represented by the delegation, and the companies, holding that any concession in wage rates should be extended to these also, put the total cost of the claim at £ 2,566,000. On the other hand, the Tribunal, in giving its judgment, observed that a great part of the railway wages was too low for human needs and declared that "a strong case has been presented for making an increase on the lowest rates a first claim as soon as the financial position makes any substantial concession possible." Let it be noted, by the way, that while the Tribunal acknowledged that the wages were too low for human needs, it neither dared to enforce a living wage, nor apparently recognized the *justice* of a living wage, but merely invited the companies to make a *concession*. No wonder if, in reply, the railwaymen delegates rejected the Tribunal's award and resolved to lay a new demand before the companies for the 50 s. minimum and nothing else. They at the same time rejected the proposal of some of their members for the calling of a strike, showing thereby that they had no intention of weakening further the position of the railways in face of competition from road transport. It was not class-war, but a genuine claim for economic justice.

Nobody could pretend that the British railway companies were then in a prosperous condition; nevertheless the following hard facts cannot be overlooked. Owing to intensive combing-out in the past several years, there could hardly be a single redundant

employee in the British railways, and so it was a large number of indispensable employees who were not paid the minimum required for subsistence, to say nothing of decency. Moreover, the minimum wage of 50 s. a week, which had been refused to them; is itself below the minimum for mere physical fitness as estimated by Mr. Seebohm Rowntree, the well-known social statistician. Finally and above all, while this strict living minimum was refused to the employees, large sums were being paid out in dividends to the shareholders, the shareholders of the single London, Midland and Scottish Ry. Co. receiving nearly £ 7 million in dividends, a sum nearly three times as great as was required to pay the 50 s. minimum wage in the four railway lines concerned.[1]

The only plausible explanation that can be adduced by the Companies is presumably that they have obligations to their shareholders. Justice in their case seems to be keenly realized. No doubt shareholders have a reasonable claim, but only a reasonable, not a predominant, claim. Moreover, as shareholders, they are ultimately the owners of the business; in other words, they are the Company, and, as such, they assume collectively the responsibility, which rests upon every employer of labour, of paying a just wage to the men they employ, before they are entitled to decide, through their delegates, how much of the year's profits shall be shared between themselves. If the laws of supply and demand offer a different solution, then so much the worse for the laws. A

[1] The 'London, Midland and Scottish'; the 'London and North-Eastern'; the 'Great Western'; and the 'Southern', Rys. into which, under the Railways Act of 1921, the railways of Great Britain are grouped.

'living' wage is a more pressing claim than the payment of a dividend, and the common sense of mankind will agree that the lowering of wages below a 'living' minimum in order to pay a dividend can never be justified.

This unfortunate case shows in an acute form the grave consequences of an economic system which regards economic activities as a closed system studiously removed from moral and ethical considerations. If business is business, it is equally true and far more fundamental to realize that economic justice is economic justice. If there is such a thing as economic justice,—and who, without idly juggling with words, could deny that it is an objective and urgent reality,—what are we to think of a science of economics so framed that it cannot even take notice of so fundamental an economic concept? And is it not obvious that if the masters of economic thought, of whom the science is justly proud, were to apply their great intellectual powers and technical experience to the study of the ways and means whereby economic justice can be achieved in the sharing of the national dividend, the solution of the problem would be considerably advanced? One of our most reputed economists, not a 'purist,' and favourable to the study of the social aspect of economics, summed up one of his articles on "money wages in relation to unemployment" as "dealing with the effect on unemployment of an equi-proportional all-round cut in money wage rates in a model world, where perfect competition prevails, where fixed capital can neither decay nor be created, and where banking policy is of such a sort that the stock of money allowed by the

banks to exist is an increasing function of the rate of interest."[1] This is but a sample taken at random. When one reflects how unreal and irrealizable such assumptions are, and how unthinkable a 'model world' is in face of the present concrete realities, one cannot help regretting that so much brain and toil have been and are still spent on this sort of intellectual gymnastics at a time when, in the words of Marshall, truer to-day than ever, "the dominant aim of Economics should be to contribute to a solution of social problems." This is not said as a condemnation of the study of economic theory, but only to emphasize the inadequacy of an economic science which would restrict itself to be a purely theoretical science.

Class conflicts

This broadening of the concept and purpose of economic science, necessary as it undoubtedly is, would not yet, of itself, suffice to restore economic order. This was the conclusion we drew from the consequences of individualism and of socialism, one leading to economic anarchy by depriving the State of its due share in economic activity, the other leading to oppressive slavery by making the State the sole undisputed agency.

To this conclusion, however, Prof. Robbins demurs. His view is that "the choice of men of good will now, as before the rise of this latter-day romanticism, is between collectivism and liberalism."[2] This, moreover, has not been a hurried decision on his part. Following

[1] Prof. Pigou : The Economic Journal, 1938, P. 134.

[2] The Economic Basis of Class Conflict, Preface, P. viii.

on the footsteps of Prof. Marshall, Prof. Robbins had also felt the 'social urge.' "Twenty years ago," he writes, 'a disgruntled ex-soldier, I was an enthusiastic partisan of the more radical corporative movements... I believed that within a system of functional groups there was a home for the spirit of man more congenial than in individualist or collectivist societies. I took up the study of economics in the hope that I might play a part in giving to this vision a concrete reality. (But) I have become convinced that it is essentially a delusion, an *ignis fatuus* leading to a quagmire of poverty, injustice and conflict."[1]

To become a 'partisan of the more radical corporative movement,' and ultimately to conclude: 'it is syndicalism which is the enemy,' reveals a state of mind not unusual in our troubled times. Not a few earnest men, dissatisfied with the obvious and grave flaws of the present economic system, and pressed by the desire of humanizing it, have turned to socialist nostrums for a solution. Marshall had done so, but was disillusioned by the utter inadequacy of socialism to afford the 'social' solution he was striving after. Prof. Robbins has gone further, pouring out the baby with the bath. Repelled by socialist economics and confusing the 'socialist' and the 'social' aspects, he will have none but formal, positive economics, which means in practice a science of wealth and no longer a science of man. Man, no doubt, is a troublesome subject to handle, being 'within certain limits, a law unto himself'; but we must either take him as he is or 'make no statements at all on the subject,' 'but that,' says Marshall, 'would be almost to abandon life.'

[1] Op. cit. P. viii.

The choice offered by Prof. Robbins—collectivism or liberalism—is really no choice at all, either to himself or to those who agree with him in condemning collectivism; while to those who, like ourselves, condemn liberalism as well, there would be no issue to the problem. Any *via media* based on social organisation is condemned by Prof. Robbins because he thinks it is bound to favour group interests as against the common good of society, and to create class conflicts. While we agree that this is a correct reading of the *socialistic* structure, the social principles already described and the working of the corporative society to be explained presently, will show that *social* organisation works differently. Class conflicts being the result will still exist, of natural class interests, but an adequate social organisation will have the solution at hand. The solution is not to do away with conflicts, as Prof. Robbins seems anxious to do, but to bring the conflicting parties to a reasonable understanding. The only way to end all conflicts would be to do away with life itself. The fact is every living group is a force and it is up to Society, by an intelligent organisation, to make the best of their vitality within the frame of the general good.

Economics in practice

Since the extremes of '*tout ou rien*' are unworkable, as we can tolerate neither that the State should have nothing to do, nor that it should have everything to do with our economic life, a middle course is obviously the only solution of the problem. Two points, moreover, have already been secured by the natural law and

human reason. On the one hand, since the State exists for the sake of promoting the common good, it must have something to say in the realization of economic welfare; and on the other hand, men are so made physically, intellectually and socially, that they are *naturally* apt, and therefore entitled, to co-operate towards the attainment of that economic welfare. These are the two pillars—individual and social—on which the structure must rest, in the further determination of the respective spheres of economic activity allotted to the two agencies.

It is only fair to add here that modern liberal Governments and liberal economists, impressed by the urgency of the need, have paved the way for a salutary reform by recognizing the socio-economic responsibilities of the State. Reference has been made to the measures adopted by various States to improve the conditions of labourers, and, to mention but one economist, Prof. Pigou in his *Economics in Practice* has laid down a very definite, and, for a liberal economist, very outspoken policy of State action in economic problems, happily contrasting with the old *laisser-faire* doctrine of State inactivity in such matters.

Before proceeding further, and in view of the confusion introduced by totalitarian regimes, we should make the distinction clear between the three cognate terms: Society, State and Government. We have already seen that civil *Society* is the *natural* outcome and prolongation of the family and of its limitations in providing for the full development of its members. The *State*, on the other hand, is that same Society considered as politically organised, or invested with the

authority required to procure the common good. When we speak of the State we do not mean the government in power, nor the cabinet, nor any form of party politics. Nor do we refer primarily to state-officials. The sense in which we use the term 'State' is that of a perfect and self-sufficing community united under a common authority for the attainment of the complete temporal life and welfare of the whole community. Though political authority is, of course, different from paternal authority, we might say that civil Society and the State stand to each other somewhat as the members of a family considered as united together either by common family ties, or by a common dependence on the head of the family who has authority to look after the good of the family. Similarly the State is the civil Society politically organized, or endowed with the authority required to lead to the attainment of the common good of Society.

Finally, '*Government*' is the term used to express the concrete manifestation of, and the instrument whereby, the authority of the State is actually exercised, whether it is distributed between distinct bodies, legislative, judical and executive, or it is all centred in one absolute ruler.

The foregoing remarks, the utility of which will appear presently, are intended to point out that 'civil Society' and 'the State' are not strictly equivalent terms, and that they may even at times seem to stand as clashing entities. There will be no clash so long as the State is intent on the attainment of the common good, which is the be-all and end-all of Society. But the clash occurs when state authority,

i.e. the Government, is usurped by an irresponsible party, as in Soviet Russia, and deflected from the pursuit of the common good to that of selfish ambitions. Then State and Society are at war, and a very unequal war at that, since Society remains defenceless against the abuse of its own authority. Apart from this abnormal state of war, it must be remembered that the State and civil Society may represent superficially divergent interests, the State standing for the rights of the central authority, and Society for the rights of individuals; but since both claims are legitimate, there is no real divergency so long as one side does not trespass upon the rights of the other. As an illustration, we have already seen that private individuals have not only individual but also social rights, not only the right to life, reputation, property and freedom of conscience, but also the right to form private associations and to organize themselves for their own purposes so long as they do not clash with the common good. Far from being opposed to the rights of the State, as it is sometimes assumed, these private organisations, we shall see, are in some cases indispensable for the attainment of the general good for which the State is ultimately responsible.

We can now proceed to examine the *via media* already referred to. Social order requires that the common good of Society, the rights of the State and those of the individuals be equally respected and promoted. While Individualism and Socialism have failed to secure this triple aim, we shall now endeavour to show that a corporate organisation of Society fulfils these conditions of a right socio-economic order.

A via media

An abundant literature has grown around the Corporate idea in recent years, due in part to the fact that the corporate principle has been adopted and adapted by different schools of thought with naturally different or opposite purposes and results. In order to make the problem more concrete and to fix our ideas on the subject, we may define the corporate organisation as *a public body, intermediary between private industry and the State, entrusted with the care of the common good of the profession and with its representation before the public powers.*[1] It is a professional organisation,—and thus may also be called a guild, —established within the State, with the approval of the State, for the purpose of promoting the interests of the profession and the welfare of its members.

One term in this definition—'with the approval of the State'—calls for a preliminary explanation. We can conceive two forms of corporate organisation, one resulting from the initiative of the State which creates it, gives it its powers, regulates it through State officials and claims to make it serve national ends; the other resulting from the private initiative of free men organizing themselves with the approval of the State. The former illustrates the *Corporate State*, the latter the *Corporate or Corporative Society.* The definition given above obviously applies to the latter, not to the former. This is an important distinction the disregard of which has brought about a certain amount of undeserved hostility against the corporative

[1] L'Organisation Corporative, (Semaines Sociales), 1935.

idea. Corporations had been established in Fascist Italy, and, as a consequence, writers in democratic countries were led to condemn corporations as a fascist invention. "People," observed ironically *The English Review*,[1] "have a habit of writing about the corporate State as if it were a patent medicine invented by Signor Mussolini, of which the British market-rights have been acquired by Sir Oswald Mosley, as if, in other words, it was something you had to take or leave as it is found in Italy." As a matter of fact, the idea and its application were known long before the Fascist State existed, as the medieval guilds amply testify.

This does not mean that State corporations are all to be condemned. A Government, even an authoritarian ruler like Signor Mussolini, with a sense of practical realities, may organise corporations which, in spite of their official character, are so regulated as to train the people to organize themselves, while they benefit from the economic advantages brought about by such an organisation. But this cannot be taken as a general rule, and, even in Italy, in spite of the undoubted benefits which the corporations have afforded, the official influence over them is certainly more than what the people in democratic countries could put up with. In this connection it is interesting to note that, writing on the work of Dr. Salazar, the modern restorer of Portugal, who, whatever else he may be, is a convinced anti-totalitarian, one of his biographers emphasizes that, from the first, Dr. Salazar unhesitatingly rejected Mussolini's State Corporatism in which the corporations have hardly more than a consultative voice under the lead of the Party officials.[2]

[1] August, 1934.

[2] E. Schreiber: Le Portugal de Salazar, P. 69.

Contrary to what some writers have stated, the Corporation is not primarily a political, but a socio-economic institution, and the obvious reason why the economic aspect is thus emphasized is the hard fact that man must live before he can philosophize. 'The ordinary business of life,' as Marshall calls it, consists for most men, in 'making a living' and, if only that 'living' is secure, the hardest problem of mankind will thereby be solved. But besides this universality of the economic problem, there is also its urgency which calls for the earliest application of the corporate organisation. No one has brought out this aspect more luminously than Pius XI, in his Encyclical on the Social Order, wherein he says:

"Labour is not a mere chattel; the human dignity of man must be recognized in it, and consequently it cannot be bought and sold like any piece of merchandise. None the less, as things are now, the wage-system divides men on what is called the labour-market into two sections, resembling armies, and the disputes between these sections transform this labour-market into an arena where the two armies are engaged in fierce combat. To this grave disorder which is leading society to ruin, a remedy must evidently be applied as speedily as possible. But there cannot be question of any perfect cure unless this opposition be done away with, and well-organized members of the social body be constituted; vocational groups namely, claiming the allegiance of men, not according to the position they occupy in the labour-market, but according to the diverse functions which they exercise in Society."[1]

[1] The Social Order, Nos. 78, 83.

After recalling the abolition of the ancient guilds and the opportunity thus offered to the inroads of Individualism, the letter aptly observes: "As a consequence of this Individualism things have come to such a pass that the highly developed social life, which once flourished in a variety of associations organically linked with each other, has been damaged and all but ruined, leaving thus virtually only individuals and the State, to the no small detriment of the individuals and of the State itself. Social life has entirely lost its organic form; the State, to-day, encumbered with all the burdens once borne by those associations now destroyed, has been submerged and overwhelmed by an infinity of occupations and duties."

All this proves the necessity of reconstructing social life in its organic form. "The State, then, relieved from the settlement of minor matters of which it is now burdened, will carry out with greater freedom, power and success the tasks belonging to it alone, because it alone can effectively accomplish these, namely, directing, watching, stimulating, restraining, as circumstances suggest and necessity demands. The more faithfully this principle of subsidiary function is followed, and a graded hierarchical order exists between various associations, the greater will be both social authority and social efficiency, and the happier and more prosperous the condition of the commonwealth."[1]

Outlines of a scheme

Having so far indicated the principles which establish the legitimacy and the necessity of a corporate organisation, we can now explain briefly

[1] Loc. cit. No. 80.

the possible working of an organisation based on the definition of the corporation previously given.[1]

1. The Corporation is an official and a public body.

This means that it is a permanent, authoritative institution, affecting a definite community, approved and controlled by public law. It is thus legally superior to *private* associations, such as trade unions, employers' groups or both combined. The true analogy of this Corporation is the municipality or the city Corporation. These municipal bodies have their charter and, within the limits of the authority recognized therein, make their own laws which are binding upon all residents in the area under their jurisdiction. Similarly with the Corporate organisation; it receives its charter from the government and, within the measure of authority recognized by that charter, exercises over its own members, the whole professional group, a genuine democratic self-government, legislative, executive and even judicial in the discharge of its function which is the common good of the professional group.

2. The Corporation is intermediary between private enterprise and the State.

This Corporation avoids two extremes. It does not supplant the State: its activities are not properly political but economic and social.[2] Moreover its jurisdiction is limited to the members of its own professional group. It enjoys, not sovereignty, the attribute

[1] E. La Pierre, The Corporation within the Corporative State. America, September 1939, P. 538 (passim).

L'Organisation Corporative, (Semaines Sociales), 1935.

[2] This distinction brings out the difficulties likely to arise from State Corporations.

of the State, but autonomy, to a degree compatible with the general public good and limited by the charter conferred by the State. Its authority, let it be remembered, derives from nature, not from the State, because the Corporation is a natural institution; but the State, by its sovereign powers, has the right to delimit the sphere in which this autonomy is to be exercised, thus co-ordinating and harmonizing the several interests and aspirations of the natural lesser societies that constitute a pluralist Society.

On the other hand the Corporation does not interfere with the management or direction of the firms or plants which fall under its jurisdiction. To each belongs its own responsibilities, the choice of its personnel, the development of its own resources. The Corporation, however, does see to the loyal execution of decisions and plans to which all freely bound themselves after free discussion in the council of the Corporation. For all members of the professional group have a voice in its government with equal representation of employers and employees. Thus the Corporation is a link between the individual enterprise and the State, but encroaches upon the proper sphere of neither.

3. The Corporation is charged with the management of the common good of the profession.

From what has been previously said about the general common good and its component parts, the distinction between the common good of the profession and that of Society at large has been made clear. That the professional group as a whole, including employers and employees, really has vital common interests of its own is evident to all who are not blinded by Marxian prejudices.

It will now be sufficient to describe in outline how the Corporation functions, once it is constituted and legally erected. Its work falls into two distinct but mutually interpenetrating categories: economic and social. The chief instrument of its activity is its corporative code or constitution. After the full and free discussion by representatives of employers and employees mentioned above, a code is elaborated to which all subscribe and which is to be binding on the whole professional group for a specified time. Its observance is sanctioned by appropriate penalties not exceeding, of course, the provisions of the Corporation's charter.

The code thus elaborated regulates the strictly *economic* activities of the given professional group: volume, rate, quota and technique of production; prices and marketing; advertising; tariffs; proposed dealings with allied occupational groups, etc. It also regulates *socio-economic* relations within the profession itself: wages, hours and conditions of work; compensation; paid holidays; family allowances; profit and management sharing; various forms of insurance. In a word, the Corporation looks to the humanizing of labour in a truly personalist economy.

This code is then submitted to the government authority which scrutinizes, from its own point of view,—that of the general common good,—all codes thus submitted by the several Corporations, and suggests such amendments as may be required in order to integrate their respective codes into a human economy, thus *planned* in justice and moderation by a democratic process. The several codes once promulgated receive the character and binding force of public law,

of which courts of law take judicial notice, just as they take judicial notice of municipal by-laws.

4. The Corporation represents the professional group before public powers.

This is sufficiently obvious from what has just been said. Apart, however, from its submission of codes for promulgation, the Corporation, from its very nature and composition, is an ever ready and authoritative consultative body which the State may call upon and associate with itself in its social and economic functions.

This arrangement, however, is different from what is called the 'Corporate State' with the electorates arranged by professional or occupational groups. Whether or not such a parallel political reform is imperative is a matter for each country to decide for itself. What must be noted is that this political dress-up is not essential to the corporate organisation. It may further be remarked that the corporative ordering above described produces by itself, without specifically political reform, a healthy reaction upon the State. For the free and flexible functioning of the Corporations in a society thus restored to its *natural* organic structure, relieves the State of the great and ever-increasing load of secondary and extraneous functions it has been obliged, or persuaded, to assume in a society which economic liberalism had deprived of its natural organs.

The State can thus concentrate upon its own constituent functions which are political and military, and not economic or professional. It can re-assume its authentic and natural rôle in Society: to transcend

all particularisms, the better to exercise its sovereignty, not by absorbing or suppressing all lesser autonomies, but by arbitrating between them in order to safeguard the real common good and promote the great ideals of truth, goodness and justice.

Some obstacles

The Corporation, as just described, may appear so simple, efficient and attractive that one may wonder why it has not been adopted long ago. But apart from the selfish individualist or party interests which, we have seen, stood in the way of such a realization in the past, there is another aspect of the matter which must also be indicated. As a fact the whole thing is not quite so simple as it looks. At almost every step of the structural work described above, obstacles and difficulties of a technical or human character are bound to arise, which we must be prepared to face. We shall be prepared if we bear in mind this simple truth: Society has lost its bearings because it has lost its organic character; this organic structure of society is a *natural* characteristic of a pluralist society; it must therefore be restored; the Corporation does so, and nothing else can. Armed with this conviction we may indicate some of the obstacles.

First, on the *human* side, men's minds must be prepared for the following postulates:

1. that the whole body of citizens engaged in a particular profession, in spite of the divergent interests of its sections such as capitalists and workers, have fundamental common interests which unite them

in a basic solidarity, more vital and permanent than the temporary and reconcilable oppositions that ostensibly split them into warring classes. The basic link is that "Capital cannot do without labour, nor labour without capital;"

2. that this professional group is a *natural* thing, originating in the social nature of man, and not in a mythical Rousseauistic 'Social Contract', nor in a mere legislative measure enforced by a government;

3. that in view of the common good, the State, as guardian of public order, is morally bound to put an end to internecine strife between sections of a professional group, without, on the other hand, sacrificing the natural rights or civil liberties of any of the contestants;

4. that the State is not competent to take upon itself the whole care of the particular common good of each professional group with its technically and socially complex and regionally differing details; and that by assuming such extraneous functions and attempting 'omnicompetence', the State would be really guilty of a serious disturbance of the right order.

On the *technical* side, agreement will have to be reached on some important and delicate points. The one that perhaps looms largest at the very threshold of the work is the burning question: should trade-unions be dissolved to make room for the Corporation, or should they be maintained and incorporated into the new organisation? Forceful viewpoints have been expressed for either solution in turn. There is a

strong *prima facie* reason for dissolving the trade unions in what is represented as the contradictory ideals of the two organisations, trade-unions being based on class rivalry, if not on class-war, while the Corporation is based on class co-operation. Again it is urged that the employers look at realities from the viewpoint of production—the purely economic or efficiency aspect, while trade unions, born of the association of workers in defence of their rights, look at realities from the viewpoint of these human rights, —the socio-economic aspect. While some conclude from these facts that the trade-unions should be abolished to make room for the Corporation, others, on the contrary, and we believe wisely, use these same arguments to prove the necessity of maintaining the trade-unions. It is wrong, they say, to assume that the Corporation excludes the idea of class. No group representing a whole profession and which, as such, contains large numbers and is not homogeneous in its composition, can be organised, unless it has first been divided into classes which form homogeneous groups. Each of these classes, the employers' group equally with the workers', will evidently have a different standpoint; there will be a rivalry of immediate interests and hence a possibility of conflict. This is to be expected, it is in the nature of things and must be put up with. What we have to avoid is the hardening of opposing groups, isolating them instead of uniting them by mutual contacts and contracts between them. If the trade-unions tend to separate, the Corporation tends to unite.

M. Brèthe de la Gressaye, one of the best exponents of the Corporative organisation in Belgium, is

emphatic on the subject: "Trade Unions", he says, "will always be necessary for the education of the working class. Its rôle is not merely that of defending the workers' interests; still more is it its task to take the worker in his actual environment and help him to live according to his condition, happy in his calling, raising him mentally and morally without tearing up his roots. With the coming of the Corporation the trade-union will have a large part to play in the defence of the professional interests, lay before the corporate Council the proposals and information gathered at their meetings etc.... The trade-unions will not be merely auxiliaries to the organs of the corporation: they will form *a constituent element* in its Council."

Besides this initial problem of organisation, the Corporation once established, will have to face the broad economic problems. It will have to decide to what ends, by what methods, and with what powers the economics of the profession will have to be directed. Will it seek to maximize production, to maintain remunerative prices, to eliminate competition, to seek the maximum national strength or the maximum of social peace? It will have to harmonize such diverse ends. Difficulties will occur in the process, but in the interests of a form of organisation for which every friend of social peace must feel sympathy, it is necessary to look squarely at these difficulties and prepare for them, so that the structure which aims at solving them be found to be neither Russian, nor Italian, nor German but intelligently human.[1]

[1] E. Delaye: Dossiers de l'Action Populaire, 16 Mars, 1939.

I should like to close with that word. Our economic system can be saved and can prosper only when, together with the working out of a practical science of economics, we have built up the strong safeguard of a thoroughly human frame-work. This frame-work is provided by the Corporative system—that is a socio-economic structure based on democratic standards, on the self-respect of all its members, and on justice for all—in short an economic organisation intelligently and practically human.

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